FINANCIAL TIMES

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France's strains come to the surface, Page 15

NEWS SUMMARY

GENERAL

Rebels backed by U.S. get boost

The strong feelings roused by President Ronald Reagan's "secret war" in Nicaragua have been intensified by the revelation that the number of U.S.-backed guerrillas fighting the Sandinista Government has risen from 1,500 in August to 7,000.

That compares with the 6,000 left-wing guerrillas who are fighting against the American-backed Government of neighbouring El Salvador.

The House of Representatives intelligence committee has already voted to end "covert" funding of the Nicaraguan guerrillas. Page 2

Walesa's phone cut

Lech Walesa, former leader of the Solidarity movement, was under surveillance by Polish police at his Gdansk home, with his telephone cut off. At least nine of his associates were detained after his Friday meeting with activists. Page 2

Sub spotting checks

Swedish navy investigated reports by 20 witnesses who said they saw the periscope of a foreign submarine off the northern port of Sundsvall on Saturday night. Swedish vessels escorted away a Soviet tanker Page 4

New Thai government

After three weeks of talks, Thai Premier General Prem Tinsulanonda named a 44-member coalition cabinet. Page 2

Iran recoups

Iranian Deputy Premier Manuchehr Mohammadi said the country had recovered millions of dollars' worth of property from the family of the deposed Shah, who died in 1980.

French arms trip

French Defence Minister Charles Hernu arrives in Abu Dhabi today for two days of talks expected to centre on increasing sales of French arms to the United Arab Emirates. Kuwait announced it was buying FFr 700m ($95m) arms from France. Military imports, Page 3

Labour funds plan

UK Labour Party leader Michael Foot said a Labour government would seek agreement with major insurance and pension funds to attract some of their money into a new national investment bank. Page 8

Benn chosen

Prominent UK Labour Party Left-winger Tony Benn, former Cabinet Minister, was chosen as candidate for the new, marginal constituency Bristol East. Page 8

Argentine amnesty

Argentina plans to grant an amnesty to security forces for crimes committed in anti-guerrilla operations

South Korea 'no'

South Korea rejected China's request to return six hijackers of a Chinese airliner, saying it would try them. Page 2

Expensive take-off

A 1000-yard (910 metre) runway costing £170,000 ($260,000) is being built at Mallow racecourse, County Cork, Ireland, to free a multi-million-dollar executive jet. It made a forced landing there carrying eight Mexican businessmen from the U.S. to Germany, and the ground is too soft for it to take off.

Briefly...

French police seized cocaine with a street value of $5.75m.

Katmandu: UK five-man team abandoned attempts to climb either of Himalayan summits Taboche and Cholatsa.

BUSINESS

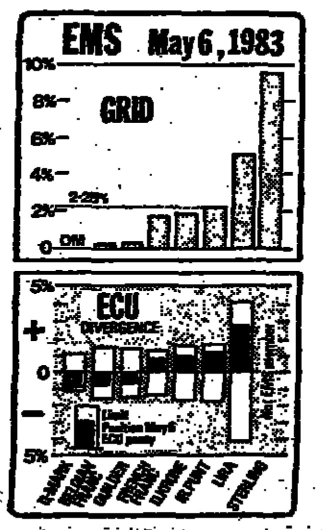
U.S. to back gas pipeline study

● THE U.S. gave its backing for a feasibility study to be made of a plan for a $10bn pipeline to carry natural gas from Nigeria and Algeria to Western Europe. Spain made the proposal at an International Energy Agency meeting in Paris. Page 16

● AFRICAN Development Bank warns that African countries are facing increasing difficulty in managing their external debts. Page 2

● U.S. TEXTILE and clothing manufacturers and unions are demanding tighter import restrictions and are asking for a meeting with President Ronald Reagan to plead their case. Page 4

● THE FRENCH FRANC was weaker within the European Monetary System last week after increased speculation over the possibility of another franc devaluation.



French interest rates were pushed higher and that helped the franc to stabilise at its lower levels.

The Dutch guilder was also underpinned by firm interest rates, while recent strength of the Belgian franc allowed the Belgian central bank to cut its discount rate by half a point to 9½ per cent.

The D-Mark showed a small improvement, helped by a slight weakening of the U.S. dollar. The Italian lira remained the strongest member of the system.

The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

● COAL reserves in Britain are enough to serve its needs and part of Western Europe's for 300 years, said National Coal Board chairman Norman Siddall.

COMPANIES

Standard Indiana sells Italian unit

● STANDARD OIL of Indiana is understood to have agreed to sell its subsidiary Amoco Italia to two Saudi-controlled companies, with its name being changed to Tam Oil. Page 16

● MITSUBISHI TRUST and Banking has launched the first fixed-rate certificate of deposit, for $50m in two equal tranches, for a Japanese trust bank. Page 18

● ARGUS PRINTING and Publishing, South Africa's largest newspaper group, suffered a 40 per cent drop in trading profit in the year ended February, at R17.5m ($16.2m). Page 18

● ROLLS-ROYCE, the UK aero-engine maker, plans to spend £70m ($111m) – £20m on computing and test facilities, £20m on manufacturing technology, and £30m on advanced engineering.

OECD sees improved prospects for world growth this year

BY DAVID HOUSEGO IN PARIS

PROSPECTS for economic growth *in the industrial world have improved further, according to new estimates from the Organisation for Economic Co-operation and Development (OECD).*

The OECD secretariat now predicts 2 per cent growth overall this year, compared with its December *estimate of 1.5 per cent.*

Ministers from the 24-nation group meet here today for two days of talks on how best to sustain this *fragile recovery. They are divided,* however, on how to achieve their goal without rekindling inflation.

The secretariat foresees 3 per *cent growth in 1984.*

It is predicting a 2 per cent growth for the group of 24 industrialised nations, as opposed to 1½ per cent last December and 3 per cent for 1984.

But that overall average conceals *wide disparities. The secretariat's* forecast is that the U.S. economy will be expanding by 4-5 per cent in real terms next year, with Japan *still showing* a modest 3 per cent increase in GNP and Europe only 2 per cent.

Inflation has, however, come *down faster than the secretariat expected.* For the six months to February of this year, the seven largest Western economies brought infla*tion down at an annual rate to 2.6* per cent, or below their 3.2 per cent average of the 1960s. Unemployment is also growing less fast.

The U.S. view is that the American-based recovery can help trigger expansion elsewhere if trade barriers are lowered, thus accelerating the growth of world commerce. This argument ties in with the U.S. belief that industrialised nations *should widen their markets to* Third World goods to offset the contraction in trade caused by developing countries who have cut back on *imports to reduce their indebtedness.*

But EEC countries fear that this is an indirect attack on the import *restraint agreements they have* with Japan, and many Third World countries, and on the Community's agricultural policy.

France, supported by the Socialist and Scandinavian countries, is expected to press for a more co-ordinated, reflationary approach to world growth. The French view is that most significant U.S. contribution to sustaining recovery would come from lower interest rates and a weaker dollar. Though many other countries share this view, few feel there is further mileage to be *got over* hammering the Americans on interest rates and on bringing down the U.S. budget deficit.

The OECD secretariat will warn governments of the danger that undue emphasis on anti-inflationary policies carries the risk of putting a damper on the incipient recovery. It believes that the adjustments downwards of monetary targets last year in line with inflation, and the competitive cutting of budget deficits in Europe, had an unintended deflationary impact on the world economy.

It is proposing to governments a new approach to economic management that would avoid the deflationary consequences of monetarism and the inflationary consequences of a Keynesian emphasis on employment. This would consist in governments setting medium-*range targets in terms* on nominal GDP, or in its equivalent of the monetary mass, multiplied by the velocity of circulation.

Stable targets as defined in such terms would allow countries with unexpected gains in inflation more "growing room" to raise output. On the other hand, in countries where inflation accelerated unexpectedly fast, policy would automatically become contractionary.

The OECD – which has already been selling the approach to governments – believes that it provides an international economic framework while allowing different countries to adapt policies to their particular circumstances.

The two-day meeting will be attended by 40–45 ministers, including Mr George Shultz, the U.S. Secretary of State, Mr Donald Regan, the American Treasury Secretary, and Sir Geoffrey Howe, the British Chancellor of the Exchequer. It is seen as an important milestone in defining the issues before the Williamsburg economic summit at the end of the month.

In the wake of it the U.S. has invited trade and finance ministers from the seven-summit countries to a dinner in Paris on Tuesday and a meeting the following day to discuss the related issues of trade, finance and indebtedness. France declined to attend.

East-West issues are not expected to loom large at the OECD gathering partly because both the U.S. and Europe want to avoid a further dispute over these issues before Williamsburg.

Lombard, Page 15

STALEMATE AFTER SHULTZ VISIT

Israel warns of war threat from Syrian build-up

BY REGINALD DALE IN WASHINGTON AND DAVID LENNON IN TEL AVIV

ISRAEL is not optimistic that Syria will pull its 40,000-strong army out of Lebanon after last week's U.S.-sponsored Israeli-Lebanese force withdrawal agreement, Mr Moshe Arens, Israel's Defence Minister, said yesterday.

On the contrary, he warned, Syria was getting ready for war with Israel, through a massive build-up of its armed forces with the most modern Soviet equipment.

Mr Arens was speaking as Mr George Shultz, the U.S. Secretary of State left the Middle East at the end of a two-week peace mission, in which he failed to win Syria's support over withdrawal of foreign forces from Lebanon.

George Shultz

In an interview on U.S. television, Mr Arens repeated that the Israeli-Lebanese agreement, which he hoped would be signed very shortly, depended on a simultaneous Syrian withdrawal. If that did not occur within a few weeks, urgent consultations would have to be reconvened between the Israeli, Lebanese and U.S. governments, he said.

At this stage, however, it was neither necessary nor useful to contemplate new Israeli military action against the Syrian forces in Lebanon, Mr Arens said.

However, the stalemate which Mr Shultz has left behind heightens the fears of renewed clashes between Israeli and Syrian forces. Israel's army radio last night quoted "security sources" warning that if Syria refuses to leave Lebanon there could be a renewal of the battles at the initiative of Damascus.

Minutes after Mr Shultz left Beirut for Paris yesterday, fighting broke out again in the hills overlooking the capital. Artillery exchanges between Christian Maronite militias and leftist Druze forces had ceased while Mr Shultz conferred with President Amin Gemayel. More than 25 people have died in the past three days of fighting.

Earlier, speaking to reporters on a flight from Saudi Arabia and Tel Aviv, Mr Shultz said Lebanon would now have to try to negotiate with Syria and the Palestine Liberation Organisation on the withdrawal of their forces.

Mr Philip Habib, the U.S. Middle East negotiator, and other senior officials, would remain in Lebanon to "continue work on matters that are still ahead of us," he said.

President Hafez al-Assad of Syria, meanwhile, flew to Saudi Arabia yesterday for talks with King Fahd.

Although Saudi Arabia supports moves to get all foreign forces out of Lebanon, officials said they saw no direct link between the withdrawal of Israeli and Syrian forces. They wanted the Israeli troops out of the country, regardless of any agreement between Lebanon and Syria.

Thatcher insists on taking her time

By Peter Riddell, Political Editor

MRS MARGARET THATCHER, the British Prime Minister, is determined to take her time about deciding the date of a general election and may prolong the uncertainty for a little longer. Yet the strong expectation of senior Tories remains that it will be next month.

There was no indication last night of when an announcement would come. Yesterday Mrs Thatcher had a meeting at Chequers, the Prime Minister's country home, with seven senior ministers and political advisers. This lasted from before lunch until the early evening.

Most of those attending believe that June has now become unavoidable, although there are differences about the date, between June 9, 16 and 23.

In an interview on BBC radio, recorded before the meeting, Mrs Thatcher was non-committal about the date. She said she would not be "pushed around" or hurried about the election decision. "I shall make it in my own good time, when I think it is right for Britain to have an election and, of course, when I believe there is the best chance for this Government to continue for one or more terms."

She did not think there would be a decision at yesterday's meeting and repeated her "hope and intention" to go to the U.S. for the Williamsburg summit at the end of this month.

Continued on Page 16

Indonesia to delay $5bn oil projects

BY OUR FOREIGN STAFF

INDONESIA, Asia's biggest oil and gas exporter, wants to postpone the completion of four large oil and petrochemical industry projects costing close to $5bn in order to save foreign exchange.

The move, announced over the weekend by Prof Ali Wardhana, the Economic Co-ordinating Minister, will have most impact on U.S., Japanese and West German companies, but other European corporations will also be affected.

Prof Wardhana said that rescheduling the projects would save about $4bn in foreign exchange in fiscal year 1983-84, which started last month.

Foreign contractors had been notified that Indonesia wanted to renegotiate its contracts, he said, but none of the projects would be scrapped.

The move is a response to continuing pressure on the balance of payments, which has been hit by falling oil revenues and weak demand for the country's main commodities, which include rubber, tin, coffee, timber and palm oil.

Unveiling an austere budget in January President Suharto made clear that the Government would do its utmost to continue financing major development projects. At the end of March, the rupiah was devalued by 27.5 per cent.

The four projects facing delays are:

● A $1.35bn oil refinery at Musi, south Sumatra, due for completion by 1985. Four Japanese companies led by JGC (formerly the Japan Gasoline Company) won the contract last year to modernise and expand one of Indonesia's oldest refineries. The other companies were C. Itoh, Nissho Twai and Far East Oil.

● A $1.3bn aromatics plant at Plaju, also in south Sumatra, to come on stream by 1986. Pertamina, the state-owned oil company, signed contracts last year with Thyssen Rheinstahl of West Germany for procurement of equipment and with Pullman Kellogg Overseas of the U.S. to design, engineer and operate the plant. The complex is to produce the raw material for nylon, polyester and other synthetic fibres.

● A $2bn olefins complex in Aceh, north Sumatra, also scheduled to begin production in 1986. Contracts for four of the seven production units went to a joint venture comprising Pertamina, Exxon Chemical Company and Tonen Sekiyu Kagaku of Japan.

● A $750m alumina plant on Bintan Island, near Singapore. Technology contracts went to Kaiser Aluminium of the U.S. and Kaiser Engineers, part of the Raymond group of the U.S. Construction contracts were won by a consortium of four companies led by Klöckner of West Germany.

Amoco Italia to be sold, Page 16

German and UK producers criticise British steel pricing

BY PETER BRUCE IN LONDON

THE British Steel Corporation (BSC) has come under renewed criticism as it attempts to improve on the 47 per cent share of the UK steel market it won last year.

The West German steel industry is understood to be complaining to the European Commission in Brussels that BSC prices are too low. A group of private UK steelmakers is also considering a formal complaint to the British Office of Fair Trading (OFT) about BSC.

Substantial discounts are being offered by BSC to selected customers, which demonstrate the tough stance the corporation has adopted to improve its market share.

Some private steelmakers complain that BSC is selling subsidised, unfinished steel at preferential rates to finishing plants in which it has an interest.

The group preparing the complaint is believed to be particularly concerned that BSC is supplying steel billet, at allegedly unfair prices, to two or three companies in which it has a 50 per cent interest. The group has not yet publicly declared its intentions, and no firm decision has been made on going ahead with the complaint. Not everyone in the private sector expects a sympathetic response from the OFT.

German concern over BSC prices has also not surfaced in public. However, UK industry officials say German producers feel that BSC prices are too low and that the corporation allegedly shows little sign of increasing its prices, in accordance with increased guidance prices issued by the EEC Commission late last month.

The new price guidelines, due to come into force on May 15, involve an average increase of about 3 per cent. The increases were believed agreed largely to accommodate the German steel industry. Prices in the Federal Republic have been much higher than those in the UK and France since the beginning of the year.

In the UK market, BSC has doubled, and in one case more than trebled, the level of rebate off list price offered to some important steel-using industries in the UK.

Although the corporation increased list prices for its main strip products by around 10 per cent from April 3, to align itself with a strengthening market after the slump last summer, some discounts have been increased dramatically between the third quarter of 1982 and the second quarter of this year.

The rebate on hot rolled coils and cut lengths offered to some tube makers, for instance, has risen from £8 a tonne to £25 ($39.45) per tonne now. Discounts on the same steel category to manufacturers of racking and strapping have nearly doubled, from £8 last year to £15 a tonne now. For cold reduced coils and cut lengths, discounts to tube producers have risen from £10 to £18 a tonne and for racking manufacturers from £10 to £15.

Domestic appliance manufacturers, mentioned in the documents, are now being offered rebates of £10 per tonne, from £5 last year.

Manufacturers of wheels and other automotive components, listed as eligible for rebates of £5 – and £8 for purchases of more than 20,000 tonnes a year – on hot rolled steel are now being offered between £10 and £15 per tonne off list price. The sector rebates are offered to customers who buy in large tonnages of steel annually throughout the EEC.

While BSC claim that its pricing policies are not secret, and that customers selected for rebate are informed, individually, about discount movements in their sector, some BSC competitors believe that the rebates published in the documents are negotiable, and that even bigger price cuts than those listed are being made by BSC.

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OVERSEAS NEWS

Boost for Nicaraguan secret army

BY REGINALD DALE, U.S. EDITOR IN WASHINGTON

THE HUE and cry over President Ronald Reagan's "secret war" in Nicaragua intensified yesterday with the disclosure that the number of U.S.-backed Right-wing guerrillas fighting the Sandinista Government had leapt to 7,000 from only 1,500 in August of last year.

The increase means that the ragged 500-strong guerrilla army, first formed with CIA support at the end of 1981, has now grown to outnumber the 6,000 or so Left-wing guerrillas fighting to topple the U.S.-backed Government of El Salvador.

The new strength of the "secret army" was revealed by the Washington Post on the basis of figures that the Administration and the CIA have provided to confidential sessions of House and Senate Intelligence Committees over the past 18 months.

The disclosures come at a time of mounting congressional anxiety, not only over the extent of covert U.S. aid to the guerrillas and military support for the Right-wing Government of El Salvador, but also over the whole question of how far the President should be free to endorse such secret operations without the full knowledge and control of Congress.

The House Intelligence Committee has already voted to put an end to "covert" funding for the Right-wing Nicaraguan guerrillas and replace it with "overt" support for governments in the area to conduct their own operations against cross-border gun-running to the Left-wing guerrillas in El Salvador. Its Senate counterpart has set a time limit on the covert operations and called on Mr to justify the action.

The issue is clouded by the suspicion that the CIA may not have been completely frank in its briefings to Congress and that Congressmen, for their part, may have been a little naive in believing all that they were told. Some Congressmen now believe that the affair could lead to a major confrontation between the White House and Capitol Hill over who should have control over U.S. foreign policy and the commitment of U.S. military resources abroad.

Congressional concern was exacerbated last week when Mr Reagan used the phrase, "freedom fighters," to describe the Nicaraguan guerrillas. Hitherto, the Administration had insisted that their sole purpose was to interdict arms supplies to the El Salvador guerrillas and undermine the Cuban "military infrastructure" in Nicaragua.

The latest estimates of their strength, up from 5,500 as recently as February, and 4,000 in December, will only fuel speculation that Washington's real intention is to unseat the Sandinista Government, which would be a violation of U.S. law, but is the avowed aim of the guerrillas themselves.

Mr Reagan has denied this, saying that the purpose is to force the Sandinistas to keep their promises by holding free elections. There is mounting concern on Capitol Hill, however, that the Administration may not have fully thought through the consequences of its actions and that Washington may be in danger of losing control over the rapidly expanding operation.

Reagan . . . "may not have thought through consequences of action."

Seoul deal with Peking on hijackers

By Ann Charters in Seoul

CHINA and South Korea, in an unprecedented accord, yesterday agreed on the return of a hijacked Chinese aircraft, its crew and passengers. The six Chinese hijackers are to be put on trial in South Korea.

Peking had requested the return of the hijackers, who had asked for political asylum in Taiwan.

The agreement is remarkable because China backs the Communist Government in North Korea and does not recognise the Seoul Government.

The Trident airliner, carrying 96 passengers and nine crew, was diverted on Thursday morning during a flight from Chenyang, north east of Peking, to Shanghai. It was the first time a civilian aircraft has been successfully hijacked out of the country.

The agreement between Peking and Seoul is in line with provisions of the Hague convention on air piracy which stipulates that hijackers may be extradited or tried in the host country. Both China and South Korea are signatories to the convention.

The Koreans have used the event as an opportunity to show off the prosperity and economic development of South Korea. Local papers have been filled with photographs of the Chinese passengers touring industrial facilities and shopping complexes. The crew declined the tour.

The 33-man Chinese delegation which was sent to Seoul on Saturday to handle the talks is expected to leave for mainland China today.

Eli Lilly inquiry

Eli Lilly, the major U.S. ethical drug company, is to be investigated by a U.S. federal grand jury following allegations that it failed to disclose "adverse information" about its anti-arthritis drug, Oraflex, William Hall reports from New York.

The action by the U.S. Justice Department is understood to be in response to a request from the U.S. Food and Drug Administration (FDA).

Setback for Mexico

MEXICO'S attempts to reduce its inflation rate below last year's record 98.8 per cent have received a fresh setback with the announcement from the Bank of Mexico that the consumer price index rose 6.3 per cent in April, William Chislett reports from Mexico City. The increase was due largely to price increases for petrol and milk, which are government-controlled. The news is likely to encourage trade unions to press for emergency wage increases.

Argentine protest

An angry demonstration of some 1,000 people chanting anti-British and anti-U.S. slogans marked the end of a 10-day odyssey by relatives of the Argentine war dead at the weekend, Jimmy Burns reports from Buenos Aires.

The relatives, aboard the naval transport ship, Lago Lacar, returned to Buenos Aires after failing to convince Britain to lift a ban on their planned trip to the Falkland Islands.

Soviet cable TV

The Soviet Union is to start testing four different systems of cable television in Moscow this year and is planning a cable-based data service, the daily Sotsialisticheskaya Industhiya said yesterday, Reuter reports from Moscow.

Ministers warned

Three Soviet Ministers have been publicly criticised in a Communist Party Central Committee decree on boosting supplies of consumer goods, AP reports from Moscow.

Warned for "failing to meet targets" were Mr Nikolai Tarasov, Minister of Light Industry, Mr Ivan Pudkov, Minister of Machine Building for light and food industry and household appliances, and Mr Vladimir Listov, Minister of the Chemical Industry. The decree hinted the Ministers would be held accountable if shortages persisted.

Brussels marches

Thousands of demonstrators marched through Brussels yesterday in protest against Government plans to crack down on illegal immigrants and encourage aliens to return home, Reuter reports from Brussels.

Aluminium aid

The Italian Government has allocated L195bn (£85m) for a long-awaited reconstructuring plan of the country's troubled aluminium industry, John Philips reports from Rome.

The money, voted at a meeting of the inter-ministerial industrial policy committee, comes in addition to a further L250bn voted for the rescue operation last month.

Stern's competitors have field day over 'Hitler diaries'

BY JONATHAN CARR IN BONN

WEST GERMANS were all agog this weekend to know who really wrote the so-called "Hitler diaries," declared by experts on Friday to be forged.

Speculation raged that the authors might be ex-Nazis in South America, or Communist East Germans — or even extreme Right-wingers in the Federal Republic itself.

It anything, the news seems to have stirred greater interest than the original announcement by Stern magazine that it had found the ex-dictator's writings.

Stern's competitors have pounced on the luckless weekly's discomfiture with unconcealed glee, offering variations on the theme "we told you so."

In today's edition, Spiegel magazine noted it had been sceptical from the start, though it had not expected the true picture to emerge so soon.

The mass-circulation Bild woundingly recalled Stern's statement last month that it had made "the biggest journalistic coup of the post-war period." Bild promised its readers from today "the interesting history of this forgery."

Among the long faces at Stern, two will in future be missing. Herr Peter Koch and Herr Felix Schmidt—two of the weekly's three chief editors—said on Saturday they were resigning.

Herr Henri Nannen, Stern's publisher, pledged there would be not one word from the "diaries" in this week's issue. On the contrary, the magazine would do all it could to reveal to its readers the background to the affair.

"I think we have reason to be ashamed of ourselves," Herr Nannen said in a televised interview.

Stern has stressed that it asked several experts for their opinion before going ahead with publication of the "diaries," of which there are about 60 volumes. However, Federal German experts said last week the documents were clearly produced in the post-war period, some even as late as the 1960s.

Iran publishes figures on war damage

Iran's economy suffered damage totalling $90bn (£60bn) in the two years ending September 22, 1982 because of its war with Iraq, according to Irna, the official Iranian news agency, AP reports from Nicosia.

The agency said details had been published in a book prepared by the Planning and Budget Organisation of Iran "(as part of) war reparations sought by Iran from Iraq, because Iraq initiated the war."

Payment of war reparations is one of Iran's main terms for ending the war, now in its 33rd month.

The book, entitled "A summary of the economic damages of the Iraqi-imposed war on Iran," gave figures of losses suffered only by the public sector of the economy, according to Irna. Nor was there any reference to losses in military hardware.

A list carried by Irna showed the oil sector suffered most at $33.5bn, followed by agriculture, at $21.8bn.

ADB in gloomy review of Africa's debt problems

BY MICHAEL HOLMAN IN NAIROBI

AFRICAN countries face increasing difficulty managing their external debts, the African Development Bank warns in a gloomy review of economic conditions on the continent.

In its report for 1982, due to be released at next week's 19th annual meeting, the bank notes that member countries' continuing balance of payments problems have led to "significant increases in foreign borrowing," resulting in rising debt service ratios, increased difficulties in obtaining funds and an inability to maintain payments.

In sub-Saharan Africa, the report says, total debt increased six times from 1970 to 1980, reaching 30 per cent of the continent's GNP. Out of $626bn in new loans to the third world in 1982, only $130bn (21 per cent) went to Africa. Of this $55bn went to five oil-producing countries (Algeria, Congo, Egypt, Gabon and Nigeria).

Balance of payments problems forced seven countries to renegotiate their debts in 1981 (Central African Republic, Liberia, Madagascar, Senegal, Sudan, Togo and Zaire) and three more in 1982 (Malawi, Sierre Leone and Uganda).

"The accumulation of arrears has become a growing problem in many other countries."

Growth in real GDP in non-oil Africa fell from 4.6 per cent in 1980 to 2.6 per cent in 1981, and declined further to 2 per cent last year.

Food production continued to be inadequate. Output of rice, maize, wheat and other cereals and grains in 1982 was an estimated 54.9m tons, a 2.7 per cent fall on the preceding year.

In 1980, Africa's terms of trade deteriorated by about 9 per cent compared with 1979: "In 1981 there was a further worsening of about 5 per cent, and early projections indicate a decline of 3 per cent in 1982. The current account deficit of non-oil African nations averaged about 9 per cent of their GNP in 1982."

Gen. Prem keeps army in new Thai Cabinet

BY RICHARD COWPER IN BANGKOK

THAILAND'S NEWLY appointed Prime Minister, Gen Prem Tinsulanonda, announced a 44-member Cabinet over the weekend which divides posts between four political parties and retains a significant role for the military.

The coalition government emerged after three weeks of negotiations and bitter political wrangling following the indecisive outcome of the April 18 election.

Gen Prem himself shocked the nation by announcing that he was quitting politics, only to change his mind and be re-appointed premier nine days ago.

The Government has been formed under new constitutional provisions which reduce the power of the military and its formation in such circumstances is seen as a boost for civilian democracy in Thailand.

But the composition of the Cabinet shows that Gen Prem, a former army commander, has been careful not to offend the armed forces.

Former military and police officers hold 10 of the 44 posts, down from 16 in the last Government, but the posts include the powerful positions of defence, foreign affairs, home affairs and two of the four deputy premierships.

Fifteen portfolios go to the centrist Social Action Party (SAP) led by elder statesman Mr Kukrit Pramoj. The country's oldest political party, the Democrat Party (DP) led by Mr Bichai Rattakaul, obtained nine posts, with six going to the military backed right-wing Thai Citizens' Party (TCP) of Mr Samak Sundaravej and three to the National Democrat Party (NDP).

Together, these four parties hold 209 seats in the nation's 324-member elected Lower House of Parliament.

Agencies add: Vietnam said on Saturday it would consider withdrawing its troops from the Thai-Kampuchean border if Bangkok guaranteed security on both sides of the frontier.

Austrian pact on coalition likely this week

By Our Vienna Correspondent

A SOCIALIST-LIBERAL coalition to take over in Austria is likely to be agreed in principle this week. Both parties wish to come to terms well before May 19, when the newly-elected lower house of parliament will meet.

Talks between delegations led by Dr Bruno Kreisky, the outgoing Socialist chancellor, and Dr Norbert Steger, leader of the liberal Freedom Party, the smallest in the new parliament, went well last week. They resume today.

At the last meeting, the delegations tackled financial policy. It is common ground that the explosive growth of budget deficits must be arrested, though the liberals may feel more strongly about this than their prospective partners.

This year's deficit now looks as though it will come to Sch 90bn (about £3.4bn) — well above the budget estimate. An even greater deficit is in prospect for next year unless something is done.

It will not prove easy to arrive at an agreement, since the Freedom Party campaigned against Dr Kreisky's proposals to close certain tax loopholes.

Dr Kreisky intends to call a special conference of the Socialist Party for May 17 to ratify the decision to go into coalition with the liberals.

Paris police arrest 54

PARIS—Police arrested 54 people, described as extreme Right-wing militants, during an armistice ceremony attended by President François Mitterrand yesterday. A number of them were said to be carrying tear gas, brass knuckledusters and toy guns.

Officials said charges were being prepared against 12 of those arrested. The other 42 were being questioned by police.

The 54 people were arrested near the Arc de Triomphe during a ceremony marking the 38th anniversary of the May 8, 1945, armistice that ended World War II.

Police said they believed those arrested were members of the extreme right-wing group, National Front.

Police have blamed extreme Right-wing militants for disrupting two student demonstrations in Paris in the past nine days. An estimated 50 students and 90 policemen received minor injuries when the demonstrations ended in bloodshed

The students have been protesting at a Government plan to reform the university system. AP

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BASE LENDING RATES

A.B.N. Bank	10 %	Grindlays Bank	‡10 %
Al Baraka International	10 %	■ Hambros Bank	10 %
Allied Irish Bank	10 %	Heritable & Gen. Trust	10 %
Amro Bank	10 %	■ Hill Samuel	§10 %
Henry Ansbacher	10 %	C. Hoare & Co.	†10 %
Arbuthnot Latham	10 %	Hongkong & Shanghai	10 %
Armco Trust Ltd.	10 %	Kingsnorth Trust Ltd.	11 %
Associates Cap. Corp.	10 %	Knowsley & Co. Ltd.	10½%
Banco de Bilbao	10 %	Lloyds Bank	10 %
Bank Hapoalim BM	10 %	Mallinhall Limited	10 %
BCCI	10 %	Edward Manson & Co.	11½%
Bank of Ireland	10 %	Midland Bank	10 %
Bank Leumi (UK) plc	10 %	■ Morgan Grenfell	10 %
Bank of Cyprus	10 %	National Westminster	10 %
Bank of Scotland	10 %	Norwich Gen. Tst.	10 %
Banque Belge Ltd.	10 %	P. S. Refson & Co.	10 %
Banque du Rhone	11 %	Roxburghe Guarantee	10½%
Barclays Bank	10 %	Royal Trust Co. Canada	10 %
Beneficial Trust Ltd.	11 %	Slavenburg's Bank	10 %
Bremar Holdings Ltd.	11 %	Standard Chartered	■10 %
Brit. Bank of Mid. East	10 %	Trade Dev. Bank	10 %
■ Brown Shipley	10 %	Trustee Savings Bank	10 %
Canada Perm't Trust	11 %	TCB	10 %
Castle Court Trust Ltd.	10½%	United Bank of Kuwait	10 %
Cayzer Ltd.	10 %	Volkskas Intl. Ltd.	10 %
Cedar Holdings	10 %	Westpac Banking Corp.	10 %
■ Charterhouse Japhet	10 %	Whiteaway Laidlaw	10½%
Choulartons	11 %	Williams & Glyn's	10 %
Citibank Savings	¶10 %	Wintrust Secs. Ltd.	10 %
Clydesdale Bank	10 %	Yorkshire Bank	10 %
C. E. Coates	10½%		
Comm. Bk. of N. East	10 %		
Consolidated Credits	10 %		
Co-operative Bank	*10 %		
The Cyprus Popular Bk.	10 %		
Duncan Lawrie	10 %		
E. T. Trust	10½%		
Exeter Trust Ltd.	11 %		
First Nat. Fin. Corp.	12½%		
First Nat. Secs. Ltd.	12 %		
Robert Fraser	10½%		
■ Guinness Mahon	10 %		

■ Members of the Accepting Houses Committee.
* 7-day deposits 6.75%, 1-month 7.00%. Short-term £8,000/12-months 9.35%.
† 7-day deposits on sums of: under £10,000 6¼%, £10,000 up to £50,000 7¼%, £50,000 and over 8½%.
‡ Call deposits £1,000 and over 6¼%.
§ 21-day deposits over £7,000 7¼%.
§ Demand deposits 6¼%.
¶ Mortgage base rate.

STATISTICAL TRENDS: THE EEC

Slowdown in growth causes problems

THE European Economic Community as a group of economies has experienced slow or negative growth in the past few years, with falling investment and rising inflation and unemployment.

Inflation began to slow last year and is set to fall faster in 1983, but unemployment has risen sharply. The modest recovery forecast for this year will probably fail to prevent a further rise.

The rate of employment growth in the EEC has been significantly worse than that of the U.S. and Japan since 1970, with the exception of last year. In sectoral terms, the trend towards a falling share of agricultural and industrial employment has continued.

The onset of lower growth, higher inflation and unstable exchange rates in the 1970s has created major problems for moves towards integration. Some measures of convergence and divergence of the economies are given here, showing the increase in variability in the 70s and 80s.

Commentary by Our Economics Staff; data analysis by Financial Times Statistics Unit; charts and graphs by Financial Times Charts Department.

The European Monetary System has been one response, but the fundamental divergences in the economies have required substantial re-alignments in the system. A result of the recession has been growing non-tariff barriers to intra-community trade and national resistance to restructuring major industries like steel and chemicals on a community basis.

Since the establishment of the EEC, the original Six have all increased the share of intra-EEC trade as a proportion of total trade, as has the UK. Denmark, Ireland and Greece have seen the opposite development, but their shares remain high.

The EEC budget has grown substantially since 1973, but still represented only 2.7 per cent of national spending in 1981. For this reason it has no appreciable fiscal effect.

Problems with the budget centre on the Common Agricultural Policy, which takes the lion's share of spending. The subsidies given to farmers have produced tensions internally and externally.

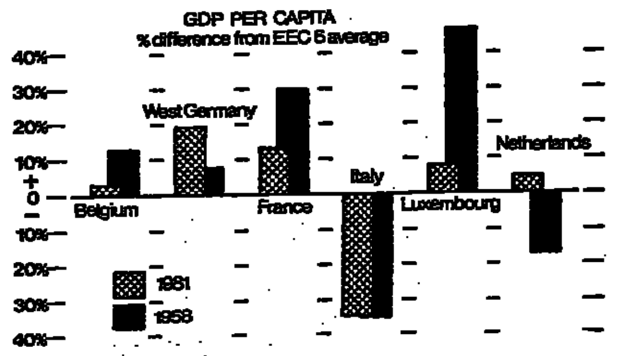
Within the community, the CAP resulted in the UK, which ranks sixth in gross domestic product per capita terms, making a net contribution to the budget, the only country apart from West Germany to do so. Refunds to the UK have been a temporary solution. But real farm incomes have tended to fall since 1974 (although they rose last year) and this is a major factor in the present farm price talks.

Externally, the farm surpluses which are produced, especially of cereals and milk products, threaten to start a trade war with the U.S. over their export to third countries.

Negotiations over the entry of Spain and Portugal into the community centre on the problems which would be raised by two more Mediterranean farming sectors within the EEC.

The EEC's competitiveness declined in the period 1973 to 1980. But in 1981-82, relative unit labour costs fell back to the levels of the early 70s, thanks to lower wage rises and favourable exchange rate movements.

The community's share of world trade slipped between 1963 and 1980. In the same period, rates of growth of productivity failed to match those of Japan, but compared favourably with the U.S.



Indicators

EEC ECONOMIC INDICATORS (% changes)

	Real GDP	Real fixed investment	Consumer prices	Unempl. rate*
1961-70	4.7	5.7	3.8	2.1
1971-80	2.9	1.6	9.7	4.2
1979	3.3	4.0	10.0	5.4
1980	1.4	2.3	14.3	6.0
1981	−0.6	−5.6	12.8	7.9
1982	0.3	−3.0	11.0	9.6
1983†	1.0	0.6	8.0	11.0

* EEC 9. † Forecast. *Sources: EEC Commission, OECD*

INDUSTRY INDICATORS (1975=100)

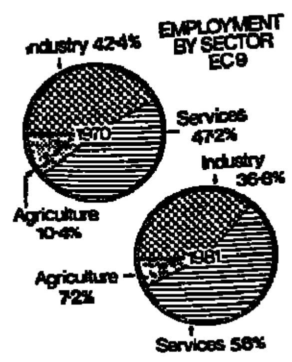
	Crude steel	Passenger cars	Elect. prodctn.
1976	107.1	115.9	111.1
1977	100.6	120.0	105.8
1978	105.8	121.3	112.5
1979	111.9	121.3	118.4
1980	102.0	110.8	116.5
1981	99.9	103.6	109.0
1982	88.2	106.5*	103.3*

* January-September. *Source: Eurostat*

EMPLOYMENT (% changes)

	Labour force EEC	Labour force U.S.	Labour force Japan	Employment EEC	Employment U.S.	Employment Japan
1970-79	0.5	2.7	0.8	0.2	2.6	0.8
1980	0.8	1.9	1.0	−0.1	0.5	1.0
1981	0.4	1.6	1.2	−1.5	1.1	0.8
1982*	0.6	1.0	1.0	−1.1	−1.2	0.6
1983†	0.7	1.6	0.4	−0.3	1.0	1.0

* Estimate. † Forecast. *Source: EEC Commission*



Internal

CONVERGENCE AND DIVERGENCE, EEC 10

	GDP per cap. coefficient of variation† PPPs	GDP per cap. coefficient of variation† Exchange rates	Inflation standard deviation*	Net govt. borrowing standard deviation*
1961-70	15.4	21.5	1.5	1.7
1971-80	13.8	29.1	3.7	3.5
1980	14.2	26.2	5.2	3.9
1981	14.4	23.8	4.7	5.3
1982	14.5	24.1	4.1	4.8
1983	14.9	23.7	3.4	4.8

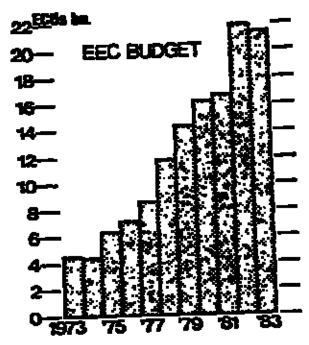
* Root of sum of squares of deviation from EEC average.
† Standard deviation divided by mean. *Source: EEC Commission*

INTRA-EEC TRADE (Shares of total, 1981. Change 1958-81)

	Exports % share	Exports Change	Imports % share	Imports Change
BLEU	70.0	+16.3	59.5	+13.7
DK	47.0	−11.3	48.1	−10.9
D	46.9	+11.0	48.2	+13.0
GR	43.2	−7.3	51.2	−2.1
F	48.2	+19.6	48.2	+21.5
IRE	69.8	−13.8	74.9	+6.5
I	43.3	+9.5	40.8	+11.0
NL	71.3	+13.8	52.0	+1.9
UK	42.8	+22.5	38.6	+18.3
EEC 10	51.2	+16.3	47.7	+13.7

Source: Eurostat

Budget

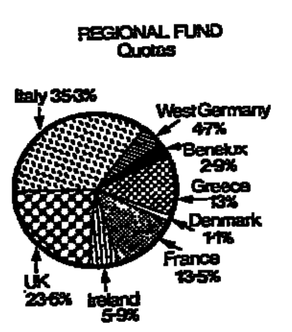


EXPENDITURE (% of total)

	1973	1982
CAP	81.2	63.7
Social fund	5.8	5.7
Regional fund	—	13.5
Industry, energy, research	1.5	2.1
Administration, other	11.5	15.0

Source: Eurostat

Agriculture



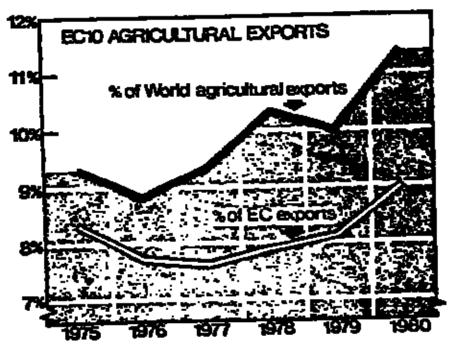
FARM SPENDING (By product, % of total, 1982)

Cereals	15.2
Milk products	30.2
Oils and fats	9.1
Sugar	9.2
Beef and veal	10.6
Tobacco	4.5
Fruit and veg.	6.4
Other products	12.7
MCAs	2.1

EEC 10: SELF-SUFFICIENCY (By product, %)

	1973	1980
Cereals	91	101
Wheat	104	117
Barley	105	112
Sugar*	91	125
Wine*	99	105
Skimmed milk	143	115
Concentrated milk	130	148
Butter	98	119
Poultrymeat	102	105

* EEC 9. *Source: Eurostat*



REAL AGRICULTURAL INCOMES (1974=100)

	EEC 9	EEC 10
1975	97.2	97.3
1976	98.8	99.1
1977	97.6	98.0
1978	99.5	100.4
1979	96.9	97.8
1980	90.4	92.3
1981	88.1	90.4

Source: Eurostat

External

CHANGES IN AREA IMPORT STRUCTURE (1958-81 % points)

	U.S	Japan	Centrally planned	Developing
BLEU	−2.6	+1.8	+0.7	−3.1
DK	−0.5	+1.6	−0.6	+3.4
D	−6.2	+2.8	−0.1	−5.3
GR	−8.5	+2.9	−1.0	+13.7
F	−2.7	+1.8	+0.9	−19.5
IRE	+3.3	+1.5	−0.1	−5.3
NL	−2.0	+1.1	+1.8	−0.9
I	−10.4	+1.0	+2.1	+1.5
UK	−4.1	+2.6	−0.3	−14.9
EEC 10	−3.0	+1.9	+0.8	−7.7

Source: Eurostat

SHARE OF GDP, 1981 (% At current prices and PPPs* EEC 10=100)

D	26.1
F	22.0
I	18.6
NL	5.5
B	3.8
UK	18.9
Other	5.1
U.S.	118.8
Japan	46.0

* Purchasing power parities. *Source: EEC Eurostat*

SHARES OF WORLD TRADE*, %

	Exports 1963	Exports 1973	Exports 1980
EEC	21.3	21.0	19.0
U.S.	7.5	15.4	13.5
Japan	4.2	8.0	8.0

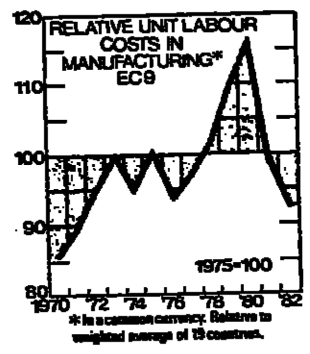
	Imports 1963	Imports 1973	Imports 1980
EEC	25.0	23.4	24.2
U.S.	12.6	15.2	15.2
Japan	5.0	8.6	8.9

* Excluding intra-EEC trade. *Source: Eurostat*

PRODUCTIVITY (Per person employed, % changes)

	EEC 10	U.S.	Japan
1963-70	4.4	2.1	8.4
1973-80	2.1	0.1	3.0
1981-83*	1.2	0.5	2.3
1979	2.4	−0.1	4.1
1980	1.5	−0.6	3.3
1981	0.9	0.9	2.1
1982	1.4	−0.5	1.7
1983*	1.4	1.2	3.2

* Forecast. *Source: EEC Commission*



OVERSEAS NEWS

WORLD TRADE NEWS

Swedes shadow Soviet tanker in mini-subs hunt

BY KEVIN DONE IN STOCKHOLM

UNDER CLOSE naval escort, a Soviet chemicals tanker was last night allowed to leave Swedish waters near Sundsvall on the country's northern Baltic coast, where for nearly two weeks, Swedish armed forces have been hunting for suspected Soviet submarines.

It is thought that at least two mini submarines are trapped behind barriers of mines laid across the fjords, close to Sundsvall and it was feared they might try to escape using the tanker as cover.

The Soviet tanker had been discharging methanol over the weekend for a Swedish chemicals company and its departure was delayed for several hours.

As it headed out to sea last night it was led by helicopters trailing hydrophones and was accompanied by Swedish patrol boats.

The hunt for foreign submarines off the Swedish coast, about 450 km north of Stockholm, reached a new pitch on Saturday when helicopters and patrol boats fired two salvos of around 10 depth charges at suspected intruders.

As in an earlier attack some days ago with mines and depth charges, the Swedish forces again failed in their attempt to bring the suspected submarines to the surface.

The Swedish defence staff is becoming increasingly wary about releasing detailed information about its activities around Sundsvall because of fears that this could be relayed by radio signals to the intruding submarines.

Much of the surrounding coastline was closed off the public at the weekend.

Investigations of the seabed by divers in areas where depth charges and mines have been exploded have also failed, so far, to yield evidence that could conclusively identify the submarines.

A spokesman for the Chief of Staff said yesterday: "It is likely that we are dealing here with midget submarines. For the moment we are sure that we must continue our investigations."

JOHN GRIFFITHS LOOKS AT PROSPECTS FOR THE ALTERNATIVE ENGINE

Diesel shifts to top gear in the car market

THE YEAR 2000 will see the start of the century of the diesel engine, according to the confident prediction of a team of planning and research consultants.

"We cannot yet consign the petrol engine to retirement and it will remain for many decades the prime power unit for cars. But the writing is on the wall," says Planning Research Systems, in its annual world engines digest.

Ford's announcement last week that it will start producing up to 150,000 1.6 litre car diesels a year at Dagenham in Essex from September, provides further proof that bigger manufacturers think so too.

There are caveats: research is proceeding on other alternative power units, such as gas turbines. The pressure of rising fuel prices has seen much development in the fuel economy of the petrol engine itself, and many are now as economical as the diesel engines of a few years ago.

But even short of a complete takeover, the potential demand for the diesel is such that a major manufacturer now ignores it at its peril.

This is despite the fact that the diesel has several disadvantages, compared with the petrol engine: it is innately more prone to vibration and harshness; it must be serviced more frequently; it is relatively heavier; involves some delay in starting up while its glow plugs heat up, and the fuel itself is unpleasant to handle on the forecourt.

A diesel version of any given car is likely to cost several hundred pounds more than its petrol equivalent. The engine is much more highly stressed – with compression ratios double that of petrol units – and more demanding in manufacture.

Ford has found that not even tighter machining tolerances are sufficient to ensure the required durability. So when major components have been produced, they are sorted into grades according to minute variations in the finished product. A computer then selects the most closely compatible ones for any given engine. Not only that, but 31 separate chiller rooms have been installed to keep the components as close as possible to ambient temperature to give accurate dimensional comparability.

With these difficulties and a total commitment of £140m, Ford must believe the effort is worthwhile – although it will not yet give market predictions for the Escorts and Fiestas into which the engines will first be fitted. Most manufacturers seem to hold the same view as Ford.

The UK, which for a number of reasons has been most reluctant to accept the diesel, provides a good illustration of the growing commitment.

In 1972, only Peugeot and Mercedes were offering diesel cars in Britain. By 1981, the number of manufacturers offering diesels had grown to eight; last year there were 13. Ford's debut this year will be followed by BL in 1984 with a unit developed jointly with Perkins.

The growth has taken place for one main reason: the diesel will on average travel about 25 per cent further on a gallon of fuel than its petrol equivalent. At the same time, the large investments put into diesels have produced engines which are quieter and generally more acceptable than initial offerings.

Fuel economy was of little consequence before the first oil price explosion. But as the absolute prices of both petrol and diesel have risen, the many thousands of miles which a motorist once had to travel to recoup his initial investment has shrunk. At the same time, differential taxation on diesel and petrol fuels in some European markets has led to soaring diesel sales.

Italy provides the best example: diesel costs about $1.90 a gallon; petrol $3.95. So if a petrol version of a given car averages 30 miles per gallon, and the diesel 40mpg, the Italian motorist can travel 33 miles on $1.50 worth of diesel fuel, against a mere 12 on petrol costing the same.

The diesel-petrol price advantage is not so great in other Continental markets, but does exist, with the main exception of Switzerland. So it is not too surprising that 335,000 diesel cars found buyers in West Germany last year, 215,000 in France and 200,000 in Italy.

Altogether, West European manufacturers produced 1.177m diesels last year, and the arrival of Ford's unit alone is certain to push up output substantially in the near future.

Even so, since the attraction diesel is confined entirely to its meagre thirst, it is highly vulnerable to fuel price factors. Thus West Germany's recent upgrading of the diesel price against petrol is expected to produce a slackening of demand this year, while in the U.S., the stabilising effect on petrol prices of the current oil glut has badly dented predictions that diesels would capture 20 per cent or more of all new car sales by 1985.

Sales jumped sharply in the wake of the 1979 oil price rises to reach 509,000 in 1981. But they have since slumped to half that level (though another big factor was the poor esteem in which General Motor's first diesel units came to be held).

Japan's car diesel output, however, has gone from a mere 44,000 in 1978 to 214,000 last year.

So the long-term expectation must be that, when the current oil surplus dwindles, more fuel price rises will lead to a commensurate increase in diesel car sales.

The UK itself has been a laggard. This is partly because diesel prices have often been higher than petrol. Currently, the situation is favourable to diesel, which at an average £1.72p ($2.7) per gallon is about 7p per gallon less.

But it has been a function, too, of the high proportion of cars sold to companies – about 50 per cent – and companies tend to adopt a "buy British" policy.

That has excluded all the UK manufacturers – at least until the arrival of Vauxhall and Talbot diesel models within the past 12 months (even if the engines are built on the Continent).

Now, however, sales are accelerating rapidly: only 2,600 diesels were sold in the UK in 1977; still only 5,800 by 1980. But in 1981 they strengthened to 9,700 and jumped by 50 per cent last year to 14,500.

In this year's first quarter they had risen to 6,665 and significantly, Vauxhall/Opel's share of those sales had reached 29 per cent.

Vauxhall/Opel, following the launch of its petrol engined Cavalier, has become a firmly entrenched rival to Ford in the fleet markets, and the signs are that its diesel version will give the diesel "respectability" among the fleets.

The arrival of the Ford diesel, and later, BL's, will enhance that respectability further.

Vauxhall/Opel is already sufficiently encouraged to predict that by 1985, its own diesel sales will have more than doubled to 35,000.

THE PERKINS diesel engine company in Peterborough, and its parent group, Massey-Ferguson, are to receive more than £100,000 ($158,000) in agreed damages from Bence Equipment and Parts company (Bepco) in settlement of a dispute over the use of the Massey Ferguson and Perkins logos and trademarks.

The out of court settlement was agreed after the two companies had initiated a High Court action alleging that Bepco had been infringing certain trademarks and copyrights and "passing off" spare parts for agricultural tractors and diesel engines as being manufactured by Massey Ferguson or Perkins.

Bepco has undertaken to modify the packaging of the parts it sells and make it clear that they are not manufactured by Massey Ferguson or Perkins. It has also agreed not to infringe trademarks and copyrights. The same undertakings have been given by two directors of Bepco, Mr John Albert Bence and Mr Christopher Jonathan Lea.

More curbs urged on U.S. textile imports

BY PAUL TAYLOR IN NEW YORK

U.S. TEXTILE and clothing manufacturers and trade union leaders are demanding tighter Federal import restrictions and asking for a meeting with President Ronald Reagan to set out their case.

The manufacturers claim the Administration is not doing enough to curb imports, particularly from Asia.

In the first three months of the year, imports of textiles and clothing into the U.S. totalled the equivalent of 1.7bn square yards, a 17.8 per cent increase over the same period last year, according to the American Textile Manufacturers Institute.

Such an increase was "astounding" at a time when there had been hardly any pick-up in domestic producers' business and about 204,000 U.S. textile and clothing workers were without jobs, Mr James Chapman, President of the Institute, said.

Mr Chapman warned that if the Administration failed to tighten import quotas and other restrictions, imports during 1983 could total 1bn square yards more than the 1982 level.

Separately, a Federal appeals court has upheld a U.S. Commerce Department decision in 1980 to settle anti-dumping charges against importers of Japanese televisions. The court ruled that the department had the authority to compromise with 22 importers on the mount of anti-dumping duties to be assessed against them.

The ruling followed a challenge by a group of unions and electronics manufacturers who had argued that the Commerce Department had violated trade laws.

Dip in UK share of roll-on, roll-off trade

BY HAZEL DUFFY, TRANSPORT CORRESPONDENT

BRITISH hauliers' share of the roll-on roll-off traffic between Great Britain and the European Continent fell to 48 per cent in the last quarter of 1982.

It was the first time that vehicles registered in the UK had been overtaken by foreign-registered vehicles since the last quarter of 1974.

Vehicles registered in other EEC countries comprised 43 per cent of the total powered vehicle traffic on the Channel and North Sea ferry crossings and other countries 9 per cent. Of the EEC total, France had the highest percentage with 20 per cent, followed by the Netherlands (7 per cent) and Belgium (8 per cent), according to figures compiled by the British Department of Transport and published in British Business.

The number of UK-registered powered vehicles – defined by the Department as lorries, lorries and trailers, and articulated trailers – increased by 4 per cent in 1982 to 181,200 – the highest number of vehicles travelling to the Continent in any year. But foreign vehicles increased by 16 per cent to 171,200, representing 49 per cent of the total.

Total traffic – all vehicles (powered and trailers) carried on roll-on roll-off ferries – was 705,300 in 1982 (622,900 in 1981), the highest ever annual figure.

Traffic has increased by an average rate of 7.5 per cent per annum since 1978.

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WORLD TRADE NEWS

U.S. report criticises sanctions policy

By Nancy Dunne in Washington

TRADE RELATIONS between the Allies and the Soviet Union are more likely to be shaped by domestic imperatives in Europe and Japan and by worldwide economic forces than they are by U.S. concerns, according to a Congressional report released by Senator Jake Garn, chairman of the Senate Banking Committee.

The report, "Technology and East-West Trade: An Update," assesses the impact and weaknesses of U.S. trade sanctions at a time when the House Foreign Affairs Committee and Senator Garn's committee are debating the renewal of the Export Administration Act governing export controls.

U.S. export controls that were designed to delay completion of the Siberian gas pipeline raised a disturbing spectre, the report said. The U.S. Government's evaluation of what is best for West European security differs from that held in Western Europe.

It is "a bad precedent" for the conduct of U.S. foreign policy to use controls on exports to the Soviet Union "as much to inconvenience and modify the policies of its Allies as to inconvenience or exact concessions from the Soviet Union."

Although multilateral studies were agreed on when the U.S. lifted its controls in 1982, the report expresses concern that "continued lack of communication and persistent differences will lead to another public display of serious disagreement between the U.S. and its Allies on Soviet trade policies."

The Reagan Administration believes there is a need for national security controls and says it has evidence of a co-ordinated Soviet programme to obtain Western technology for military purposes. However, the report says that more effective and consistent administration of existing controls may be more productive and controlling additional items or categories.

San Francisco rail contract

WESTINGHOUSE Electric, the U.S. electrical equipment manufacturer, has won another major contract from Sofervai of France to supply propulsion, brakes and other equipment for 150 cars for the fully-automated Bay Area Rapid Transport system in San Francisco, Paul Taylor reports from New York.

Westinghouse has been a major sub-contractor to Sofervai, the main contractor on the Bart project since 1969, when it won its first contract to supply equipment for 250 cars. The latest multi-million dollar order is for solid-state chopper propulsion, brakes and pneumatic equipment.

Power advice for Hong Kong

THE HONG KONG Government has appointed Lazard Brothers, the London merchant bankers, to advise on a plan for the colony to take electricity from the proposed nuclear power station to be built in Guangdong province in China.

Mexico pitches to foreign investors

BY WILLIAM CHISLETT IN MEXICO CITY

SR ADOLFO HEGEWISCH, the new head of Mexico's Foreign Investment Commission, calls himself "a pitcher, not a catcher." His ability will come under scrutiny in London this week when he makes a pitch at small and medium-sized businesses to try to encourage them to invest in Mexico at a time when foreign companies have been badly burned by the country's economic crisis.

Sr Hegewisch's predecessors were "catchers," who sat back and assumed that foreign investors, mesmerised by Mexico's massive oil wealth, political stability and growing market, would rush to the country.

This approach has not been very successful. Total foreign investment in Mexico is only $11bn, about 4 per cent of total investment. The U.S. accounts for about 70 per cent of investment and the UK about 7 per cent.

Since the financial crisis, which was largely caused by a quadrupling of the external debt to $83bn in six years, foreign borrowing is no longer feasible. Depleted hard currency reserves, mounting unemployment and a battered private sector have led the five-month-old Government of President Miguel De La Madrid to promote foreign investment actively.

Sr Hegewisch, like many senior financial officials, believes that Mexico's woes are the result of structural imbalances rather than falling oil prices or high interest rates. For example, it is now held that Mexico should have financed more of its development projects through foreign investment and less through excessive foreign borrowing.

Mexico is now much more willing to allow majority or 100 per cent foreign ownership of companies, especially if they create jobs, boost exports and introduce new technology. Its 1973 investment law generally restricts foreign participation in a new joint venture to a maximum of 49 per cent.

Sr Hegewisch says that no changes in this law are planned, since it is already flexible enough to allow majority foreign ownership. "I do not believe that we should just look at foreign investment in a strictly legal framework, but also in a social and economic policy context. We are going to be much more realistic," he said.

In the past Mexico allowed few cases of majority foreign ownership — the most noted exceptions are in the car industry. Volkswagen, Chrysler, Ford and General Motors are 100 per cent foreign-owned, having set up before the 1973 law when there were no restrictions.

Sr Hegewisch, who was vice-president of Banco Mexicano Somex, the mixed capital bank which was nationalised last September along with all private banks, realises that the new pragmatic approach may bring the Government into conflict with the Left and radical nationalistic groups within the ruling Institutional Revolutionary Party (PRI).

The Left disapproves of increasing foreign investment as it claims that Mexico is already under the yoke of the multinationals. Sr Hegewisch denies this and blames the multinationals and foreign chambers of commerce in Mexico for not standing up to their critics.

"I do not believe that being nationalistic—and I consider myself a nationalist—means being against anybody. It means being in favour of Mexico. If Mexico benefits from majority foreign ownership, then we will allow it."

Foreign operations in Mexico are responsible for 30 per cent of non-oil exports, now a major priority since fall in the oil price. Oil exports rose from 15 per cent of total exports in 1976 to 75 per cent last year.

The new approach is beginning to bear results. Sr Hegewisch said that Texas Instruments is negotiating a deal to set up in Mexico with majority ownership, the Sheraton Hotel chain has announced it will build five more hotels and Xerox is to invest a further $100m in its plant.

One interesting case is Blue Circle, the UK cement group, whose Mexican subsidiary Empresas Tolteca is the largest single British investment in the country. Tolteca, like many companies, was hard hit by the 82 per cent devaluation of the peso in 1982. Extra capital to allow the company to survive has been provided by both Mexican and British interests and Tolteca is now majority foreign-owned.

Eriksson, the Swedish communications company, has capitalised $20m of bank debts owed by its subsidiary in Mexico and now has 80 per cent of the capital in the company.

"If the alternative is bankruptcy or reducing the Mexican participation in a company then we shall allow majority foreign ownership," said Sr Hegewisch.

Sr Hegewisch . . . 'a pitcher, not a catcher.'

The Government has also halted the process whereby some majority foreign-owned companies have had to "Mexicanise" because very little Mexican capital is currently available.

Sr Hegewisch was personally appointed by President de La Madrid and has been empowered to make decisions which before could only be made by seven Ministers meeting together. Even permission to build a warehouse had to be approved by the seven Ministers. "The bureacracy was terrible," he said.

Mideast military imports weather fall in oil price

BY PATRICK COCKBURN

THE MIDDLE EAST will import $33.1bn worth of military hardware in the next six years, according to a new report. It will also need to spend abroad another $26.4bn for services, maintenance and construction.

The report, by Frost and Sullivan Ltd., expects U.S. defence companies to increase their share of the market because of their role as principal supplier to Egypt, Saudi Arabia and Israel. The more aggressive arms export policies of the Reagan Administration will also help defence sales.

Spending on arms has soared in the Middle East since the Iranian revolution sparked off a renewed rise in oil prices in 1979. The overthrow of the Shah increased security fears among the oil states.

Saudi Arabia's defence expenditure rose from $6.7bn in 1975 to $24.4bn in 1981. Between 1977 and 1980, no less than 40 per cent of the world's arms exports went to the Middle East and North Africa.

The fall in oil revenues over the last year is not likely to have a drastic impact on this surge in defence spending. In many cases it will be the last item to be cut. Most countries in the region are locked into new procurement programmes initiated two or three years ago and Israel's invasion of Lebanon last year gave added urgency to the military build-up.

Non-American defence contractors have also reacted to the depression in the West by stepping up their arms sales effort. For instance, two-thirds of French arms exports worth a total of FFr 41bn (£3.5bn) went to the Middle East and North Africa last year, mostly to Iraq and Saudi Arabia.

Although the U.S. has dominated Saudi defence procurement, the French have had a number of breakthroughs such as the signature in 1980 of a contract worth $3bn to supply naval vessels built by Direction Technique de Constructions Navale. Another contract for

M CHARLES HERNU, the French Defence Minister, arrives for talks in Abu Dhabi today on increasing French arms sales to the United Arab Emirates, Reuter reports. Diplomats said the two sides would discuss prospects of the UAE buying French Mirage 2000 fighters as part of an overall programme which may include Exocet missiles and naval early warning systems.

the delivery of two 4,000-tonne frigates costing $1.6bn is being negotiated.

At a time when the market for civil contractors and suppliers in the region is stagnant, the arms market remains buoyant, though Britain is not particularly well placed to take advantage of it. In the 1970s Britain fell well behind as a defence supplier in the region.

Some Jaguars have been sold to Oman and British Aerospace Hawk light attack trainers are finding customers but this only totals 1 per cent of the combat aircraft sales to the region. Sales of tanks such as the Chieftain are more successful, with 278 originally destined for Iran bought by Jordan and paid for by Saudi Arabia.

Defence Markets in the Middle East, Frost & Sullivan, $1,600.

SHIPPING REPORT

Dry cargo market shows improvement

BY HAZEL DUFFY, TRANSPORT CORRESPONDENT

A CONSIDERABLE improvement in the dry cargo market is reported in the past week by shipbrokers Denholm Coates. In almost every trade, there has been sufficient strength for shipowners to exceed the last levels in both the Atlantic and Pacific markets.

The U.S. Gulf/Japan-South Korea rates are improving, due to the draft restriction in the Panama Canal causing considerable difficulties for the Japanese/South Korean charterers who have contract re-lets to fix from the U.S. Gulf; and the U.S. Gulf/Continent grain trade has also been improving.

The brokers note that the Bangladesh Government is importing a large amount of grain, for which a 29,000 tonnes vessel has already been agreed, while the River Plate/Brazil market is showing a lot of activity.

Slight improvement in rates in the tanker market over the past week is reported by brokers. A number of VLCCs and ULCCs have found employment from Kharg Island in response to the sudden availability of Iranian crude oil, but the brokers have not been able to establish the rates at which they were fixed.

Rates out of West Africa are reported to have shown a definite improvement—a 100,000 tonnes vessel to the U.S. being fixed at the improved level of Worldscale 52½ and a 120,000 tonnes vessel with options to discharge in the UK/Continent/Mediterranean at Worldscale 41. The Mediterranean trades are described as a "mixed bag," while Caribbean rates are reported not to have shown any improvement.

Gatt plan to find debt solution

BY ANTHONY McDERMOTT IN GENEVA

CLOSER COLLABORATION between the General Agreement on Tariffs and Trade (Gatt) and the IMF and World Bank as a means of tackling global trade and debt problems was the major topic in a lively two-day debate among the Gatt's consultative group of 18. Mr Arthur Dunkel, the director-general of Gatt, was encouraged to reinforce existing contracts with these institutions.

The group brings together senior officials from developing and developed countries and the main geographical regions. The EEC was represented by Mr Leslie Fielding, the director-general for external relations.

The debate was based on a Gatt working paper on trade and indebtedness, which for non-Opec developing countries was estimated in the range of $500bn. According to Western delegates it was agreed that any solution to the problems produced by exchange rates and interest rates could only be found if debt and trade were taken together.

The developed countries would have to keep their markets open to the exports of developing countries to help them pay their debts. The question mark over this proposed co-operation was whether an end to the recession was likely and whether it would lead to an increase in protectionism in the short term.

World Economic Indicators

UNEMPLOYMENT

		Apr. '83	Mar. '83	Feb. '83	Apr. '82
UK	000s	3,169.9	3,172.4	3,199.4	2,818.5
	%	13.3	13.3	13.4	11.8
		Mar. '83	Feb. '83	Jan. '83	Mar. '82
U.S.	000s	11,381.0	11,490.0	11,446.0	9,881.0
	%	10.3	10.4	10.4	9.0
W. Germany	000s	2,386.5	2,535.8	2,487.1	1,811.4
	%	9.0	9.6	9.4	6.9
France	000s	2,017.1	2,080.1	2,129.9	1,964.5
	%	8.9	9.2	9.4	8.7
Italy	000s	2,751.8	2,745.6	2,690.2	2,311.5
	%	12.2	12.2	11.9	10.2
Netherlands	000s	767.7	778.7	774.1	595.0
	%	14.3	14.5	14.5	11.1
Belgium	000s	563.3	574.3	579.8	501.8
	%	13.8	14.1	14.3	12.3
		Feb. '83	Jan. '83	Dec. '82	Feb. '82
Japan	000s	1,650.0	1,620.0	1,350.0	1,350.0
	%	2.7	2.7	2.4	2.3

Sources: Eurostat and others

Insurance brokers' boom as foreign buyers move in

BY CHARLES BATCHELOR

RECENT upheavals in the insurance industry have caused the creation of a number of spin-off broking firms manned by refugees from the larger groups.

The acquisition by foreign, mainly U.S., companies of large or controlling stakes in British brokers is continuing to provide a stimulus to directors and other employees to break away and set up smaller, more personal organisations.

Those firms which have been set up in the past two or three years have been growing rapidly, while continuing realignments among the larger groups provide a constant supply of newcomers.

To describe the firms which have been establishing themselves as "new" is something of a misnomer since their partners or directors have usually spent many years in the market with their previous companies.

This helps to explain why they have been able to develop their business. But both clients and underwriters have welcomed a new force in a market which is increasingly dominated by a small number of large companies.

The new entrants are frequently specialised and claim that they can often put more thought into devising an individual solution to a client's broking problem than their larger rivals.

It was the takeover in February 1982 of Seascope, a medium-sized Lloyd's broker, by Henry Ansbacher, the merchant bank, which prompted Mr David Low and a number of colleagues to establish their own operation.

Tyser Low has been in business for eight months, concentrating on the marine and energy contracting insurance fields. It is not yet an approved Lloyd's broker – two sets of accounts are now required – so it places business with Lloyd's through the long-established Tyser and Co.

"We have done extremely well, although the oil slump has meant we have not been quite as successful as we would have hoped," said Mr Low.

Tyser Low began with a staff of 10 and has since expanded to employ a dozen.

Among other recent entrants to the market are two linked companies, Patis and Co. based in Twickenham, and Carsons Associates of Exeter.

Carsons, which serves the West Country, and Patis, which places business with Lloyd's and looks after the London end, were set up last October by Mr Steve Collins, a former director of Nelsons Hurst and Marsh, and Derek Carr and Mike Cookman, both from Stewart Wrightson.

Patis/Carsons acts as a brokers' broker – only handling clients' business directly when no other broker could easily do the same job – in the professional indemnity, engineering and liability and fire and business interruption fields.

Mr Cookman describes his role as helping a broker to retain an account which might otherwise be lost for lack of expertise in a particular area.

"When a smaller broker goes beyond his normal parameters he experiences problems and there is a danger of a larger company coming in and taking the business away," he says.

Jenner Fenton Slade (JFS) was set up in July 1980 and expects to place $100m worth of premiums into the London and international markets this year.

It started out processing its Lloyd's business through Hogg Robinson, but became an approved Lloyd's broker in its own right in January 1983. Hogg Robinson retains a 25 per cent stake in the equity, while the balance is held by JFS's nine directors.

The company came into being when six directors left C. T. Bowring and Co after its acquisition by Marsh and McLennan, the U.S. broker.

They began independent life with a major advantage – $40m of business from J. H. Blades and Co, a major U.S. supplier of energy-related business to the London market.

"Maintaining that business was in itself a challenge," said Mr Keith Cook, a JFS director.

"It has gone exceptionally well, despite the fact that the oil business is a tightening market. There have been a lot of losses, while in the U.S. domestic market competition has grown," he added.

Managers back union moves to save BS jobs

BY DAVID GOODHART, LABOUR STAFF

THE trades union campaign to fight compulsory redundancy in British Shipbuilders (BS) – by mass occupations if necessary – was backed at the weekend by representatives of BS's 1,500 managers in the shipyard section of the Engineers' and Managers' Association.

Mr John Lyons, general secretary of the EMA, told the annual conference of the shipyard section that occupation of shipyards by workers could not be condemned.

He said: "It is a call for help from those who see their industry being destroyed by a combination of market forces, incompetent top management and an ideologically indifferent Government."

Mr Lyons asked why BS workers should be faced with compulsory redundancies when the Government pays hundreds of millions of pounds to the National Coal Board to prevent miners having to face compulsory redundancy.

He also accused the Government of failing to tackle "unprincipled and unfair international competition, particularly from South Korea."

The union believes that of the $5bn to $6bn of U.S. aid to South Korea, at least $400m goes directly into the shipbuilding industry, which is also supported by military personnel and research.

Union officials say that Sir Robert Atkinson, BS chairman, has stated that the corporation needs to cut its manhours by half, but Mr Lyons said this would simply hasten the "unilateral dismantling of a strategic defence industry."

The EMA says that yards like Govan on the Clyde and Austin and Pickersgill on the Wear are highly competitive by European standards but still cannot compete with the Far East.

The union believes retaliatory action should be taken against South Korea and the Government should provide incentives to British shipowners to increase the proportion of their ships built in British yards.

N. Sea divers seek support in row over union membership

BY OUR LABOUR STAFF

BRITAIN'S North Sea oil-fields could be hit by sympathy strikes by over 5,000 workers in support of 27 divers staging a sit-in on the Ninian Northern platform off Shetland.

The divers are demanding that their employers – Sub Sea Offshore – recognise the Professional Divers' Association. They have already received backing in the form of strike action by 12 divers on the dive support vessel, Tender Tarpon.

At a meeting in Aberdeen today, the PDA will be pressing for maximum support from the two major unions on the North Sea oil platforms – the National Union of Seamen and the Amalgamated Union of Engineering Workers.

Mr Mike Todd, general secretary of the PDA, said last night: "The unions will consider ordering a strike to close down the whole North Sea."

The divers – who began their sit-in last Wednesday – were due to be evicted over the weekend after the Chevron Oil Company was granted a court order by an Edinburgh court on Friday. But the weather has been too poor for court officials to make the journey to the platform.

'Growth needed before cuts'

BY JEREMY STONE

HIGH rates of economic growth would be needed during the next five years before a re-elected Conservative Government could make significant cuts in taxes or public borrowing.

This conclusion was reached by economist Mr Walter Eltis – a long-standing advocate of reduced public spending – after analysing the Government's likely spending priorities and the outlook for unemployment.

Writing in a bulletin issued by stockbrokers Rowe and Pitman, Mr Eltis forecasts a real increase in public spending during the next Parliament of something like 5 per cent, assuming no change in the cost of supporting the unemployed.

Spending on defence, law enforcement, pensions and the health service are seen as adding 7 per cent to the current total in real terms. This would result in part from the Government's Nato commitments, while the rising average age of the population will lead to a higher total of pension payments and greater demands on the health service, even at unchanged standards of care.

These rises are only partially offset by cuts in education – thanks to the falling numbers of school children and in public expenditure on industrial investment and subsidy to the nationalised industries. Mr Eltis expects real savings from these sources of perhaps 2 per cent.

If productivity grows at 2 per cent a year, which Mr Eltis calls a middle-of-the-road projection, unemployment would remain steady provided there was a 2 per cent rise in output.

That would cause tax revenues at unchanged rates of tax to grow, like output, by about 10½ per cent over five years, 5½ points more than public expenditure.

Disney canvasses the votes of industry

By Peter Bruce

SNOW WHITE is going to the country. British MPs have been alerted. The City of London is beginning to rally to the cause. The lady's agent is hunched at his desk, snatching at telephones, behind an embossed leather plaque which reads: "It CAN be done."

The outcome is anybody's guess, and all Mr Keith Bales, the agent, will say is: "It will be most interesting." Hi ho!

The decision to plunge Britain into its first Mickey Mouse election was not taken at Chequers yesterday, but on May 5, when Mr Bales, vice-president of Walt Disney Productions' Character Merchandising Division, penned a letter to every British MP. It said: "The purpose of my letter is to see if you would see merit in alerting your local businesses to the manufacturing opportunities that exist in Britain and, in turn, help them with unique new products which would increase their profits and create employment."

Mr Bales, it appears, has decided that, with all the surplus industrial capacity about in Britain these days, there might be some mileage for companies in the manufacture of fantasy. He wants to sell Disney franchises to anybody who makes anything.

Banks have also been approached, and at least two, he says, have responded favourably to the idea. Disney already has nearly 250 licensees in the UK, plastering their products – jam tins, sweets, snack trays, cups, watches, roller skates, pullovers and pyjamas – with pictures of Mickey and friends. Mr Bales wants more.

"We have about 125 characters that are really commercial," he says. Disney made $35.9m in revenues from character merchandising alone last year, and Britain is the group's third biggest market, behind the U.S. and Japan.

Disney takes 6 per cent off wholesale sales, says the letter to MPs, "but the profits to be made by the key manufacturer can be as high as 60 per cent." In reality, Mr Bales concedes, profit margins in "well run company" might average 20 to 30 per cent.

Production boost as BL van sales leap

BY JOHN GRIFFITHS

FREIGHT-ROVER, BL's purpose-built vans subsidiary, is to increase production for the second time in six months, mainly as a result of rising UK sales.

Output is to go up to 430 vehicles as week immediately. It was previously raised to 390 a week in November. At the start of 1982, before the launch of a new range of Sherpa vans, Freight-Rover had been building 180 a week and was on short-time working.

Society of Motor Manufacturers and Traders statistics show that in the first four months of this year 4,881 Sherpas were sold, a 55 per cent increase on the same period last year. Sales in April, at 1,474 units, were 65 per cent up on April 1982 and a record for the month in a row.

This compares with a rise in the medium vans market overall in the first four months of 18.9 per cent, and of 15 per cent in April.

Freight-Rover is still trailing well behind the market leader, the Ford Transit, 15,383 of which have been sold so far this year. However, it can expect a further pick-up later this year when it launches a model to take it into the 3.5 tons sector – its current ceiling is 2.5 tons – already occupied by Transit.

The increase in medium van sales helped to lift the commercial vehicles market overall last month by 10.8 per cent to 23,617 (21,317 in the same month last year).

Over the first four months, total sales were 18.4 per cent higher at 94,918 (80,136).

The boom this year in sales of light vans (derived from cars) slowed last month, with sales eight per cent higher at 7,623. Nevertheless, for the first four months they are 27.9 per cent higher at 31,452 (24,594).

BR sell £100m assets

BY HAZEL DUFFY, TRANSPORT CORRESPONDENT

BRITISH RAIL (BR) raised about £100m from the sale of assets – principally property and hotels – in the financial year 1982-83.

BR has emphasised to the rail unions, however, that these one-off sales do nothing to help a trading position which is described as "still very serious."

Board members told the unions at a meeting of the top-level Rail Council last month that the priority now must be to obtain an improved position on trading and the Public Service Obligation (PSO).

If this can be achieved, it will provide the Government with confidence that BR is putting its house in order. It would also release internally generated finance, including proceeds from asset sales, to pay for increased investment spending.

The publication of the 1982 accounts on Wednesday will show that BR made a group trading loss of £174m last year, after payments from the Government in respect of the passenger business of £887m.

BR believes that if last year's strikes had not taken place, it would have broken even after Government payments.

No bonanza for farmers

BY RICHARD MOONEY

BRITISH farmers have not enjoyed an incomes bonanza since EEC entry and consumers are not much worse off than they would have been outside the Community, according to Mr Christopher Johnson, group economic adviser to Lloyds Bank.

In the latest issue of the bank's Economic Bulletin, Mr Johnson says last year's widely publicised 45 per cent rise in UK farming income represented "no more that a moderate offset to falls in income in earlier years."

In real terms farmers' "broad cash flow" rose by only 6½ per cent in 1982, he says. This figure, which gave a better indication of the true financial position, had only just returned to the 1978 level.

After being boosted on entry into the EEC, British farm prices fell in real terms.

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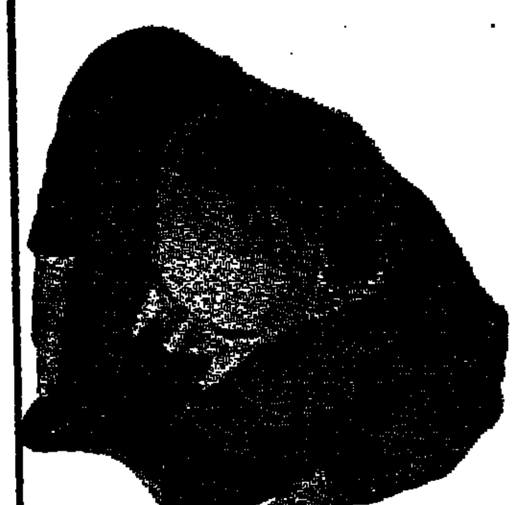

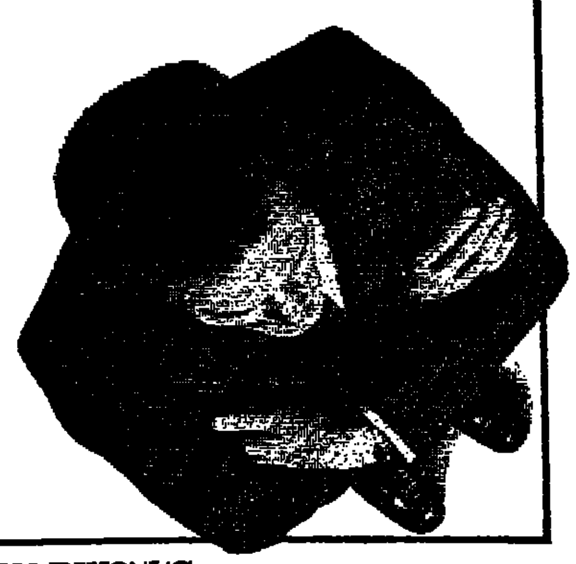

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New Midland service for corporate customers

BY MARGARET HUGHES IN LONDON

MIDLAND BANK is the first British bank to offer corporate customers an electronic funds transfer service. The new system, based on technology supplied by ADP Network Services, will speed payments transmission by providing the corporate treasurer with a direct link through his computer terminal to Midland Bank's own payments processing system, which is being automated.

In the same way, the corporate customer will have electronic access through Midland Bank to international multi-currency wire transfer systems such as Swift (Society for Worldwide Interbank Financial Telecommunications).

The new system can be used for payments in any currency at any location. At the same time, again using ADP technology, Midland Bank is enhancing its computerised cash management service with multilateral netting system, Multi-Net.

Such a system consolidates payments between a company and its subsidiaries, or among the subsidiaries, reducing the number of funds transfers between them. As a result, a company should be able substantially to reduce its bank operating and foreign exchange costs.

As with other cash management services the aim is to assist the corporate treasurer to make the best use of funds available within his company.

These innovations put Midland ahead of the field once again in computerised services to corporate customers. It was the first European bank to introduce computerised cash management last year, using ADP technology which provides balance and transaction reporting.

It was quickly followed by National Westminster Bank, which is also planning to launch an electronic payments transmission later this year.

The other two clearers are further behind, with Barclays planning to introduce a system based on Chemical Bank's computerised package, probably launching both cash management and electronic funds transfer systems.

Lloyds Bank is keeping its plans very close to its chest. It is known to have had discussions with several software companies but has made no commitment to any system and may well be developing its own.

'Little aid' for small business

BY TIM DICKSON

A BUSINESS group has criticised the budget for not doing more to meet the "day to day" difficulties of small companies.

"Most of the measures only affect independent businesses once in their lifetime when they are starting up, expanding or being sold off," the Association of Independent Businesses (AIB) has told the Chancellor Sir Geoffrey Howe in its submission on the budget and Finance Bill.

"Few will help the immediate problems facing independent companies this spring and summer."

The AIB had hoped that its call for a reduction in business rates, with complete de-rating for empty industrial premises, would be adopted in the budget.

"The Exchequer cost of reducing the National Insurance Surcharge by ½ per cent could have been used to introduce 20 per cent industrial de-rating, yet the benefit to the small sector would have been much greater than the measure you ultimately decided upon."

The association also wants to see an improvement in the day-to-day tax position of those who work in independent businesses

Poll fever makes bank interest rates a sensitive issue

BY JEREMY STONE

THE MOVEMENT of bank interest rates is a more sensitive issue than usual, as financial markets seem to have decided there will be a general election next month.

"The money supply figures will be awful," say some of the City of London's monetary economists. "There are no grounds for expecting a cut in clearing bank base rates."

Others see it differently, saying: "A panic has clearly set in, with people going overboard, scared of a repetition of last month's splurge in government spending. It won't happen."

In an election campaign the authorities would probably be unwilling to do anything which increased bank interest rates for fear of triggering a rise in mortgage rates. But actions which seemed to lower rates might be regarded as "monetary gerrymandering" and imperil the recent recovery in the exchange rate.

The underlying worry for supporters of the Government's medium-term financial strategy (MTFS) is the suspicion that policy has covertly shifted into an expansionary gear.

Declining inflation figures, they fear, may have lulled policymakers into relaxing their monetary stance. From this point of view, the £2.8bn total for central government borrowing in March was a twofold shock.

It is bound to have some fairly striking offsets in tomorrow's money supply figures. The market is expecting a rise of between 1.5 and 2 per cent for sterling M3 – three to four times the seasonally adjusted rate during the past five months. A figure at the upper end of that range would imply (with the 0.9 per cent rise in March) that £M3 was growing at an annual rate of nearly 19 per cent, way above the 11 per cent upper target limit.

Monetary growth of this order could present a serious threat of accelerating inflation next year, but this threat need be taken seriously only if the March spending spree has set a new level of overspending for the current year.

There is a less worried camp in the City which believes that the overshoot was packed with non-recurring items.

It could be, moreover, that the April figure, due on Wednesday, will show that some of the spending done in March actually related to the current year.

If this were so, the growth of £M3 might be running at more like 13 per cent, still higher than the target range but well short of a rate to ring inflationary alarm bells.

BCal to upgrade first-class services

BRITISH Caledonian Airways is to spend £500,000 on upgrading its executive and first class services in an attempt to win more highly profitable business passengers in the face of rising competition and a slump in first-class traffic.

The airline has raised the standard of its executive class cabin service to "super executive." BCal described this at the launch of the new services as a "kind of first class," with new seats fitted seven-abreast, and free drinks.

It has also re-designed its traditional first class service, with re-furbished sleeper seats, a range of free in-flight gifts and drinks and new long kilts for the senior air hostesses.

The new services are to be introduced on May 16 on BCal's international operations. The changes are expected to generate an extra £1m net revenue this summer and £3m extra in the next full financial year, Mr Alastair Pugh, the airline's managing director, said.

Television centre

LEADING FIGURES in the British television and film industries are to act as advisors for a new research centre for television and film studies at Glasgow and Strathclyde universities in Scotland. The centre has been set up in response to the growing demand for post graduate studies and higher degrees in this field.

Leyland deal

A REDUNDANCY notice to 800 workers at British Leyland's Aveling Barford engineering plant at Grantham in Lincolnshire will be officially withdrawn today after a decision by the men to accept a productivity deal they had repeatedly rejected.

Italian contract

MARKHAMS, the Chesterfield engineers, has won contracts worth £2m to overcome a serious shortage of work and provide security for the 600 workforce until the end of the summer. The contracts include a £1.5m order for a boring machine for an Italian tunnel project.

Shoe manufacturers report orders and deliveries up

BY ANTHONY MORETON, TEXTILES CORRESPONDENT

FURTHER signs of an upturn in the economy have come from two separate sectors within the textile field. Both shoe manufacturers and synthetic-fibres producers have reported a more encouraging trend to trade in the early months of this year.

The British Footwear Manufacturers Federation has stated that "orders and deliveries are now on a rising trend" and the British Man-Made Fibres Federation has reported "some improvement" in both UK production and deliveries in the first quarter of the year.

Both bodies are treating the improved situation with great caution. "We are very cautious about the position", the footwear manufacturers stated.

"A lot of shoes are being delivered but the bad spring weather could have held back sales and we could see unsold stocks at the end of the season."

The Man-Made Fibres Federation, equally carefully, points out that "one or two large contracts could have distorted the figures" and it is waiting for another three, or even six months before talking about a firmly-based recovery.

Manufacturers' shoe orders in February reached 11.9m pairs compared with 6.7m pairs in January. Deliveries also went up to 10.5m pairs, though by a rather slower 2.9 per cent rate of increase.

It would also appear that the long slide in employment within the industry has also come to an end. The number of employees is now 50,400 and while this is a drop of 5.8 per cent over the previous 12 months, it appears that there are few notified redundancies in the pipeline.

A big worry, however, is the level of imports. The numbers of shoes coming in from Italy continues to rise at a staggering rate, having gone up by 23 per cent in the first two months of the year to 8.8m pairs.

Imports from Far Eastern countries, such as Taiwan, have also risen strongly, but the industry is less concerned about them, because of trading agreements, than with those coming in from Poland and Romania at "chronically dumped" prices.

On the synthetic-fibres' front, deliveries rose by 19 per cent in the first quarter of this year, compared with the same period of 1982. Export sales shared strongly in the resurgence, with some 57 per cent of total deliveries going overseas.

On the production side the federation reports that output in the first quarter of this years rose by 6 per cent, over 12 months earlier, to reach 97,408 tonnes. Within this movement there was a drop of 15 per cent in output of filament yarn and a rise of 15 per cent in that of staple fibres.

Staple is the more important indicator, though, as it accounts for three-quarters of all synthetic output.

Pension cash to back investment, says Foot

BY PETER RIDDELL, POLITICAL EDITOR

A LABOUR Government would seek agreement with major insurance and pension funds to attract money into a National Investment Bank for use in financing investment, Mr Michael Foot, the Labour leader, promised yesterday.

Mr Foot told the conference of the Association of Scientific, Technical and Managerial Staffs in Bournemouth that the money would give as good a return as the funds' other investments.

His speech was partly aimed at answering the question of how Labour would pay for its plans.

Mr Foot said exchange controls would stop large sums continually being invested overseas. He also noted the pledge to set of a new National Planning College.

In a speech in Droitwich yesterday, Mr Peter Walker, the Agriculture Minister, attacked Labour's foreign policy proposals. He said they would be "more disastrous than any party since Britain enjoyed a parliamentary democracy."

Mr Walker agued that Labour's platform would "in its major essentials improve our relationships with the Soviet Union and the Warsaw Pact countries, and alienate, disillusion and depress our allies."

Cinzano puts wine in paper cartons

BY MAURICE SAMUELSON

CINZANO INTERNATIONAL's UK subsidiary is to start selling wine in small paper cartons like those used primarily for soft drinks and fruit juices.

The quarter-litre cartons will go on sale for about 79 pence each, with the aim, Cinzano says, of making wine "an everday low cost drink."

Its first customer is Tesco, which has offered to sell the Swedish-designed Tetra Brik Cartons in 60 of its leading stores.

Although small quantities of wine in cartons are imported from Europe, mostly in one-litre packs, this is believed to be the first time they have been packed and sold here by a leading UK wine supplier.

The packs, which Cinzano calls Wine Cubs, will contain the equivalent of two full glasses of Gambina, Chianti Classico, Valpolicella or Soave.

Cinzano's Gambina wines were first launched in November 1981 in three-litre, bag-in-box containers.

Benn to fight marginal seat

By Our Political Editor

LEADING left-winger Mr Tony Benn was selected yesterday as the Labour candidate for the new and highly marginal seat of Bristol East.

That followed his rejection on Saturday for the safer seat of Bristol South, which will be fought for Labour by Mr Michael Cocks, the party's Chief Whip in the House of Commons.

There has been more than a year of involved manoeuvring in Bristol about who should fight each of the seats after the changes in boundaries, under which Mr Benn's Bristol South-East constituency disappeared.

There have been accusations about the packing of constituency management committees by representatives of centre-right trade unions determined to stop Mr Benn.

The result is to leave Mr Benn with an uncertain future. On the basis of Thursday's local election results Labour would have won Bristol East by only 1 per cent or a few hundred votes.

After his selection yesterday, Mr Benn, in characteristically confident form talked of a "really big victory" at the general election. He pointed out that there was a turnout of 43 per cent in last week's local elections, and he predicted a turnout of 85 to 90 per cent at the general election.

Labour is now selecting candidates at a rapid rate, although there are well over 100 still to be picked.

UK NEWS

RISE OF THE VENTURE CAPITALISTS WHO BRING PROSPERITY

In search of new entrepreneurs

BY MARK MEREDITH

EUROPEAN investors regard venture-capital companies as though they were flashy imported American cars which the investors were itching to take out for a fast drive.

That is exactly the image that governments and development agencies want, so as to inspire a new breed of entrepreneur to arise from the midst of industrial decline.

The venture-capital company is relatively new to Europe. There are probably fewer than 30 companies which have taken on this American approach to investment management. They include eight UK companies, such as Advent Management, Prutech and Technical Development Capital, part of the Finance for Industry group.

In the U.S. venture-capital companies have been behind such great success stories as Apple or Tandem Computers, where the value of investment has grown several hundredfold.

The successful venture-capital company should be prepared to roll up its sleeves and become involved in management of the companies in which it invests, seeking to bridge whatever gaps appear.

The degree to which companies are prepared to become involved with the management of their investments—hands-on management, as it is dubbed by an industry fond of jargon—separates the purist venture capital specialist from the less refined.

The latter is much more likely to call in outside help, from retired company executives or part-time management consultants, rather than attempt to sort out problem investments itself.

Mr Peter Brooke, sometimes described as the high priest of venture capitalism, and his U.S.-based company, TA Associates, would satisfy most definitions of what a venture-capital specialist should be. TA gathers investment from institutions, corporations and private individuals. It is then pooled in a central fund.

In return for a management fee, TA invests the cash, on behalf of its clients, through a small, professional group of managers, usually with industrial and academic experience rather than a financial background.

Each manager will have no more than five companies in his or her charge, to prevent interests from being spread too thinly.

The venture company would normally want to take an equity stake in the companies in which it invests. A close working relationship is established between the entrepreneur and the venture-capital fund manager.

Questions of management, further finance and other growing pains should be anticipated rather than dealt with after they occur.

As it gets bigger, the venture-capital company takes care to develop an investment strategy. It involves itself in companies at various stages of development and in various industrial sectors—such as biotechnology, computers, electronics or consumer goods.

That form of investment, however, is mainly associated with high technology.

An important corollary of this investment mechanism in high technology is that it may offer to large corporations a chance to explore new areas for development. Olivetti of Italy has a string of investments through venture-capital companies in the U.S. to gain just an insight.

Because most of the companies are unquoted on stock exchanges, venture capital relies on a sound marketplace in which to sell off investments and shed any bad losers. A company's portfolio may be lifted into big profit by only two out of 10 of its investments.

The thriving U.S. market in unlisted securities serves as this marketplace for companies that are not bought by larger corporations.

However exciting the idea, it can work only in harness with an entrepreneur. It may be here that the new European venture capitalist has the biggest headache.

"An entrepreneurial class has not emerged. Venture capitalists have not taken this into account," Mr Brooke told a conference on the subject in Edinburgh.

That is not to say that European entrepreneurs have not been cowed by industrial decline. Despite American cautions about the inhibition of leftward moves in European politics, they appear to be gaining ground.

The numbers vary from country to country, according to definitions of venture capital, but the Netherlands, France, West Germany and Belgium have budding investment companies.

There are high-technology companies beating the finance market at home at its own game by going abroad to seek the necessary money and investment planning.

The right kind of seedbed for venture capital companies has been laid by several European companies as they try to improve the climate for small businesses and to encourage entrepreneurs.

Austria and the Netherlands have systems by which some investment losses can be written off.

Development venture capital should not be directed towards the creation of jobs, according to Mr Stanley Pratt, of Venture Economics, the main consultancy in the U.S. for venture capitalism.

He believes that venture capital must be oriented to the creation of wealth—then the jobs will follow. He points to eight leading venture-backed companies in the UK which have created 72,000 jobs in less than 10 years. The movement encourages such ideas as stock options to ensure employee participation in company growth.

The Edinburgh conference emphasised other problems in European development. M Herve Harmon, managing director of Sofinnova, the principal French venture-capital company, cited the conservative nature of the banking community, rather than a Socialist Government as explaining slow growth in France. His company has placed many of its investments in the U.S.

One of the key problems in the creation of venture-capital companies would be drumming up money for domestic projects because of the more attractive investment climate of the U.S.

Co-op announces £17.3m profit and dividend cut plan

BY GARETH GRIFFITHS

THE Co-operative Wholesale Society (CWS) has reported 1982 trading profits of £17.3m on a turnover of £1.98bn, compared with £16.8m on sales of £1.9bn in 1981 and has recommended that its dividend be cut by 50 per cent.

The proposed dividend cut, however, reflects the strategy of the CWS in the past two years to cease making wholesaling profits and instead make profits on its manufacturing and development work.

Mr Denis Landau, the CWS chief executive, said yesterday the CWS was looking for opportunities to expand the number of its sites. The pressing need of the Co-operative retail movement was for the introduction of new and larger stores.

The CWS recently paid BAT Industries £14.1m for five Mainstop stores. Mr Landau said: "Similar retail development opportunities are now being sought actively."

The accounts for the year to January 8 show that the food division accounted for £1.4bn of sales and a £12.7m trading profit, the non-food division £322m and a loss of £6m, up from a £3m loss in 1981. The development division had a turnover of £39.7m and profits of £5.2m, and the retail division a turnover of £181m and a trading loss of 1.3m. Consolidated sales were up 4.4 per cent and reserves increased by £18m to £243m.

The CWS board recommends a cut in the dividend to its member retail societies from 25p per £100 of purchases to 12.5p per £100 of purchases. However, credit terms to the retail societies have been improved and there was a substantial increase in the level of debtors.

Mr Landau said that the CWS planned capital spending of around £50m in 1983, compared with £44m in 1982. Some £30m is planned for manufacturing this year. He identified three main areas for the CWS—the creation of major regional Co-operative societies; the rapid development of modern retailing facilities; the re-establishment in the eyes of the consumer of a clear Co-operative identity. The percentage of own-label products sold in Co-operative stores is 30 per cent and the figure is rising.

BUILDING AND CIVIL ENGINEERING

Raising product standards

THE Building Economic Development Committee, backed by the Department of the Environment, is to oversee a campaign designed to increase the use of British Standards for construction products.

The move is not only designed to increase the efficiency of the construction industry in serving domestic markets but also to improve the international marketability of British building products.

During the coming months the Building EDC will be working to increase the use of British Standards and independent certification schemes by public and private purchasers and specifiers and to improve the involvement of users and manufacturers in their preparation.

Last November, the EEC discussed British Standards in relation to the international competitiveness of UK construction products. It looked to the British Standards Institute "to produce British Standards which provide more positive support and stimulus for British exports" and also noted criticism of the slow pace of some standards work.

A report just put before and approved by the Building EDC says the BSI should help promote the more widespread use of British Standards in the UK, thus giving them greater currency abroad.

The BSI, it adds, should also assist in the preparation of international and European standards where UK industry identifies a trading interest.

The report also has words of advice for British industry, suggesting it should make resources available for the preparation of the standards it needs, use the British Standards it has helped to produce and encourage their use by UK consultants working overseas.

According to the BSI report considered by the EDC, the government should clearly adopt the policy—set out in the White Paper on standards, quality and international competitiveness—of using British Standards for its purchasing requirements. In addition, it should promote — through the Department of Trade, British Overseas Trade Board and the Overseas Development Administration — the use of British products and services in strategic overseas markets.

By any other name

"WHEN THE going gets tough, the toughs get going," is apparently one of the maxims by which Mr John Watts, chairman of LPH Equipment, runs his company. He has "got going" to create a fresh image and capture more business.

His company is actually Lovell Plant Hire under a new banner, with a new livery and a much wider remit. Faced with the hardest recession that the industry has experienced for many years, the company, barely making ends meet, decided that it must react vigorously to improve its share of the market.

It therefore hired a research organisation, IFF, to survey the plant hire industry. After more than 250 interviews with construction companies, local authorities and public utilities, some revealing facts emerged.

Most important was that 23 per cent said they would only hire equipment carrying a competing contractor's name if there were no alternative sources; while a further 6 per cent flatly said they would not hire such equipment in any circumstances. This substantial sector of the market, nearly all large construction companies with big spending power, provided Mr Watts with an obvious target. Hence the change of name and livery.

An aggressive sales campaign is planned, and LPH Equipment is not going to restrict its activities to site plant, but intends to enter the general industrial plant leasing field with related factory equipment, such as welding sets.

Building from the roof downwards

ERECTING BUILDINGS from the top downwards is creating major savings in time and money for Hungarian contractors.

In a direct reversal of traditional building wisdom, a new top-to-bottom building technology is enabling the erection of multi-storey, reinforced concrete buildings in record time, with no tower cranes and only a fraction of the labour force normally required. The time savings are such that buildings which would have taken two years to build can now be put up in under six months.

The new system is the brainchild of Mr Istvan Nagy, head of a development team at the Institute for Building Science (Epitestudomanyi Intezet) of Budapest, and has been put into commercial operation under the name Lift-Form by Kipszer, the Hungarian industrial construction and contracting enterprise.

Even using advanced Western building technologies, monolithic construction is slow, labour-intensive and requires high consumption of form and scaffold materials. In building from the ground up, forms can only be stripped away when the concrete has reached its full strength. Such a system would save time, labour and materials. The concept of Lift-Form was born.

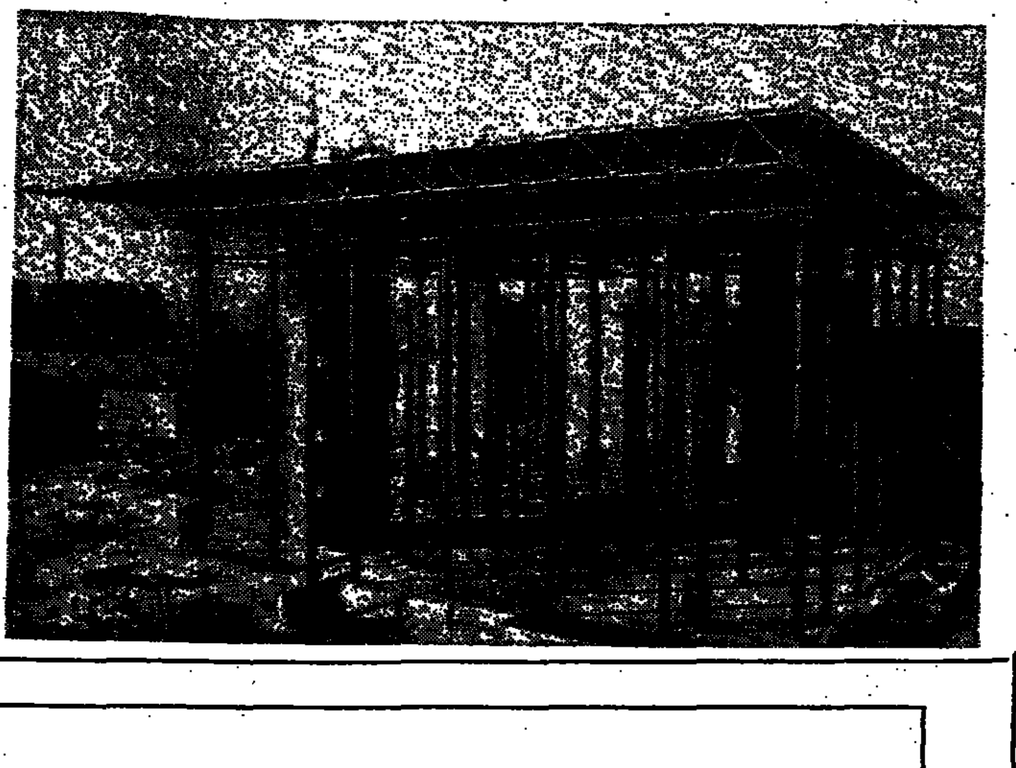
In a Lift-Form construction, the foundation, staircase core and concrete bedding are made in the same way as in conventional monolithic construction. But from this point onwards, everything is different.

Firstly, positions are prepared on the bedding for a number of tubular steel columns, the number and height of which depend on the floor area and height of the finished building. These prefabricated columns are erected by a mounting crane and bolted into position.

When this stage is completed, a number of hydraulic lifting units are positioned at predetermined points on the base floor. The formwork, large enough to cover the whole floor area, is then assembled on top of the lifting units and around the columns and monolithic staircase. When this is complete, the lifting units are operated from a central control position and the formwork is raised to the height of the building's roof.

When the formwork is in position, the plastic moulding elements are installed together with the reinforcing bars. Concrete is then pumped up from ground level. When the concrete has reached stripping strength the form work is lowered to the level of the next floor and the plastic moulding elements are removed and transferred to the formwork. This sequence of operations is continued until the first floor is complete.

It occurred to Mr Nagy that, if the roof were built first, followed by the succeeding floors in a downward direction, the same formwork could be used for each floor and, particularly, could be removed as soon as the floor had hardened sufficiently to carry its own deadweight and long before it had reached its final strength.

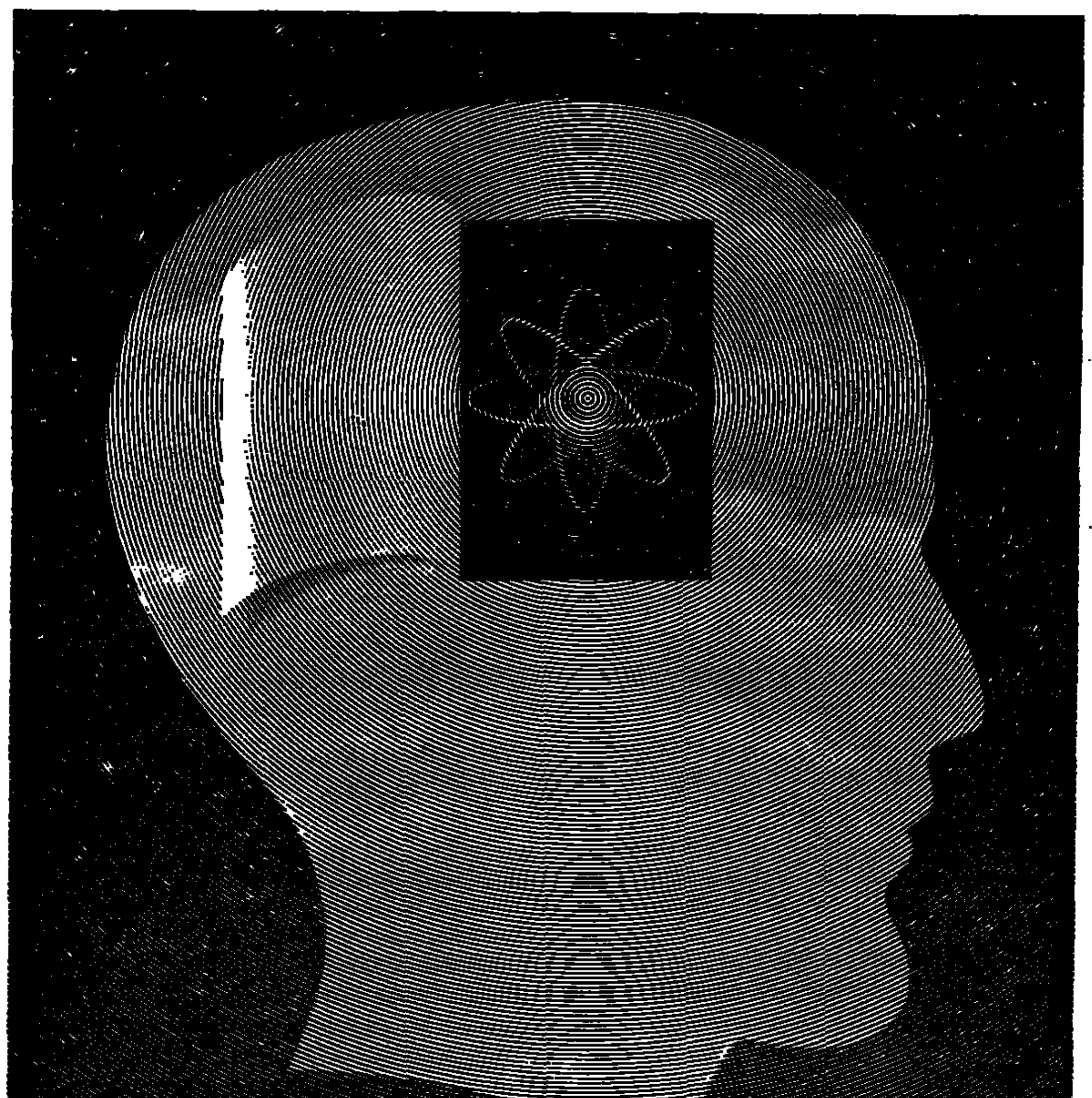


From the moment the uppermost floor is built, all work is carried out under cover. No tower cranes are required, and there is no need for a large ground area for the storage of equipment or materials as these can all be accommodated on the ground floor of the building, a particularly useful feature in building on vacant plots in built-up areas.

At present, Lift-Form can be used to erect buildings up to 56 metres in height and with a floor area of up to 2,300 sq m. The optimal height of building is around 40 metres with the advantages of the system coming out best in buildings with between five and 15 storeys. Experience has shown that the system can complete about one floor a week.

Some 18 Lift-Form buildings have been completed in Hungary since the technology was first introduced in 1978, ranging from multi-storey car parks to cultural/recreation, office and factory blocks. The Building Institute and Kipszer already have contracts for eight more Lift-Form buildings in Hungary this year and they are actively looking to foreign markets.

TOM SEALY



Controversial estate to be demolished

THE controversial Bonamy Estate in South London is the latest local authority housing estate due to be demolished because of structural faults.

Local councillors have been told that the estimated cost of demolishing and re-building the low-rise flats in Rotherhithe, in the borough of Southwark, will be about £45m over a five-year period.

It would cost about £44m over an eight-year period to carry out major rehabilitation work on the estate, which was built between 1964 and 1970.

There has been serious concern over the estate, containing over 900 homes, since 1980 when a report on conditions was first submitted to the council. In 1980, the cost of structural repairs to the Bonamy, designed by Southwark's own architects' department, was put at £11.5m.

Faults range from leaking roofs to corroded water mains, while the concrete slabs are not strong enough to stand the 5.5 metre spans. The result is deflection of the slabs, loads appearing on non-load bearing party walls, and water penetration.

Other major problems include cracks and signs of movement in concrete slabs and poorly executed construction joints while the cover to the external exposed concrete is generally less than that stipulated by codes of practice and London building by-laws.

Some 2,500 people live on the estate, which is made up of a combination of low-rise flats and maisonettes. The development also includes flats for old people, shops and a public house.

The council has decided the only sensible course of action is demolition and is approaching Mr Tom King, the Environment Secretary, for special capital provisions to enable the removal and re-building of low-density low-rise houses on the site.

LISA WOOD

CONTRACTS

UK

Work starts on £14.6m M25

THE BOVIS CIVILS/PETER DIRSE joint venture has won the contract for the 8.54km Leatherhead to Reigate section of the M25 London orbital motorway for the Department of the Environment with a tender of £14.6m. When completed in 19 months time this section of motorway will complete the M25 between Heathrow Airport and Sevenoaks. Work includes 8.64 km of dual three-lane motorway and alterations to 2.5 km of subsidiary roads. The route, from the existing M25/A217 interchange at Reigate, runs mainly across agricultural or common land and through two woods to link up east of Leatherhead with a section of motorway currently being built.

*

HENRY BOOT BUILDING has been awarded contracts totalling £10.6m Largest is a management contract to build a £9m hotel, to be named the Harrogate International Hotel. The 12-storey 214-room building will be linked to the upper foyer of the adjacent Harrogate conference centre and will be completed by the end of 1984. The company is also to undertake two management contracts, valued at £1.6m, for London Transport executive. The first is for restoration work on Baker Street, Great Portland Street and Euston Square underground stations. The second is the conversion of a former public house at the entrance to Baker Street into a recruitment centre.

*

G. E. WALLIS AND SONS (southern division) has been awarded a £397,118 design and build contract for the conversion of workshops into offices at Chatham for the Southern Water Authority.

OVERSEAS

£11m Oman job

A Ministry of Foreign Affairs complex costing £11.7m is to be built by WIMPEY ALAWI in Muscat in the Sultanate of Oman for the director general of properties of the Diwan of Royal Court Affairs. Work begins shortly and is due for completion in October 1984. With a total of 11,500 sq. metres of floor area the complex will have one, two and three stories with reinforced concrete frame and hollow block infills. The specification calls for finishes to a very high standard, including extensive use of Italian marble and teak panelling.

*

BRAN & LUEBBE OIL AND GAS DIVISION based at Market Harborough, has been awarded a NKr 14m (£1.3m) contract by Statoil, the Norwegian state owned oil company and operator of the Gulfaks "A" project. The contract covers the design and engineering of what is thought to be the largest offshore chemical injection unit ever built. Bran & Luebbe is to design, engineer, and manage the project, using British-built pumps. Structural fabrication and assembly of the unit will be carried out by P. Hoivold Mek Verksted Kristiansand, and the tanks will be fabricated by Maritime Servces, also of Krstiansand. Both are members of the O.I.S. Group. Completion date is November 1984.

هكذا من الأصل

TECHNOLOGY

EDITED BY ALAN CANE

U.S. MANAGEMENT TOOL NOW AVAILABLE FOR UK COMPANIES

Strategy for information in large companies

BY ALAN CANE

THE CLIENT was a large New York insurance company, absolutely dependent for commercial survival on the integrity of its customer records.

Yet the scatter graph showed clearly that the company was in severe danger of losing its policy masterfile stored on the mainframe computer.

The chief executive officer turned, aghast, to his management services director: "Tom, why haven't you told me about this before now?"

"John," the director replied wearily, "I've been trying to *tell you about this for two years.*"

The story is true; names have been changed and omitted for obvious reasons. But it illustrates the power of a new, computer-based management tool which has just become available in the UK.

It is called the Alloway User Needs Survey, and it is the result of research carried out at the Sloane School of Management, Massachusetts Institute *of Technology, by Dr Robert* M. Alloway.

What it sets out to do is provide a technique for developing a strategy for *information* systems in very large companies—in the UK that would mean *companies* with a turnover of £500m and more.

It is based on a combination of elaborate survey techniques and *mathematical* analysis—its basic premise is that managers *within* companies are expert enough and professional enough to know their own needs in information systems—data processing, office automation, management information systems and so on.

And, it *aims to show where there* is disagreement between the information systems providers (data processing department) and the information users (managers) on the importance and success of the systems.

In the example above, the systems managers clearly understood the frailty of the computer masterfile, but the user managers did not attach high importance to their anxieties. All, however, understood the *importance* of complete loss of customer files to the company.

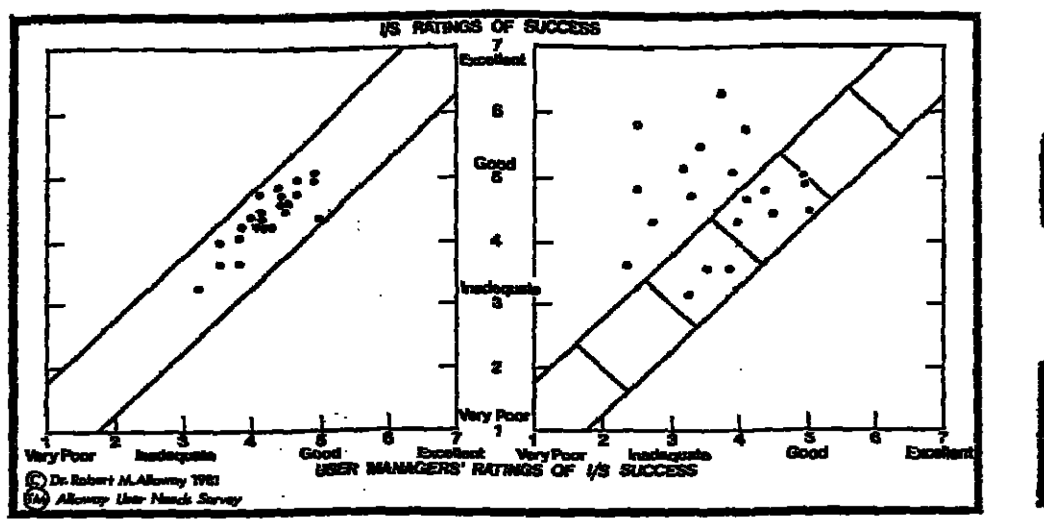
The Alloway approach is based on a detailed questionnaire which is completed by 200 *or more key (and hand-picked)* managers in the company.

According to Dr Alloway the research on which the questionnaire is based resulted from interviews with more than 1,000 managers. The results showed that there was generally good *agreement between information* system providers and user managers on the factors leading to systems success.

No correlation was found between the importance of individual factors and corresponding *information systems* performance.

The questionnaires, quantified and coded, provide an expert database of what all those most qualified to know (those actually running the business) consider to be the successes, failures and importance of their information systems.

Where user managers and systems providers agree, their congruence can be used as the *basis for strategy. Where there* is obvious disagreement immediate action *may* have to be taken as in the example of the insurance company.



Dr Robert Alloway: the two scatter graphs show, on the *left*, a company where users and providers agree on the strengths and weaknesses of their information systems; on the right there is marked disagreement. Each point represents a feature such as management reports or system security. (I/S: Information systems providers).

Sophisticated mathematical *survey tools* — multi-criteria decision-making analysis, the experts call it—are used to measure the agreement between the variables.

Dr Alloway *says the entire* process can be accomplished for *a new company in three to four* months. The second or third time round, the time can be reduced to only six weeks or so: "*Most companies will not go* through a strategy exercise annually—it is too much of a headache."

The importance of Dr Alloway's work is underlined by the problems most large companies *will face in the next few years* as they contemplate the commissioning of entirely new kinds of information systems—moves *from centralised to distributed* data processing, installation of advanced automation systems—and many companies still do not have a coherent strategy for the information systems they use at present.

Many ignore the problem hoping it will go away. Dr Alloway says: "The problems simply mount up. And if a company has no idea how to tackle their solution one year, it will have no better idea the next."

The 30 or so *companies* which have already used the Alloway approach in the U.S. include Burroughs, AT & T (pre-reorganisation) and General Motors.

The Alloway programme has been licensed in the UK to Butler Cox and Partners, a leading business systems consultancy. Mr Tony Brewer of Butler Cox said charges for the work, including survey, analysis and consultancy, would typically *start at £50,000.*

He was convinced of the *value of the Alloway approach:* "We are convinced from an intellectual point of view—there is resonance with our own opinions—and we are impressed with the calibre of the companies in the U.S. which have used Alloway.

Dr Alloway is currently "anglicising" the survey: "All our questions are guaranteed neutral and free of bias; there is a difference between the U.S. and the UK which we have to take into account," and he is to assist Butler Cox on their first *implementation of the programme.* Butler Cox is on 01-583 9381.

Speed up in office automation

SIGNS that the pace of progress in office automation is quickening are beginning to appear.

According to a new survey conducted by the Policy Studies Institute, some 62 per cent of a sample of 225 companies which replied to a postal questionnaire now make use of word processing equipment; almost four-fifths of the offices in the sample were using microcomputers.

The study observes: "This was more than double the proportion of only three years before and the incidence of increased spending on them was much the greatest of any of the electronic office products.

Seventy per cent of the sample reported increasing their spending on them in the previous 12 months, and 69 per cent expected to increase theirs in the next 12 months."

Why do companies invest in word processing equipment? The survey suggests that improvement in text quality (better service to customers and to managers) and in the economics of text production predominated.

Only 2 per cent of the sample suggested they bought word processors to replace worn-out typewriters, and one 1 per cent said it was a defensive response to their acquisition by rivals.

The fact remains that almost one-third of the sample had not installed word processing equipment; for most of those, their work load was insufficient; others were adopting a wait and see approach. About 25 per cent said the high cost of word processing equipment (£2,000-£7,000 a station) was an important objection.

Significantly, 34 per cent of the sample saw investment in word processors as a first step towards larger-scale office automation, although this attitude was most prevalent among the larger companies with 20,000 or more employees and revenues of £1bn or more.

In the past two years or so, the growth of the market for electronic typewriters, electromechanical machines with some of the advantages of word processors at little more cost than an electric typewriter, has been dramatic; the PSI study detected the first signs that these machines are beginning to lose ground to the all-electronic word processors.

Why invest in electronic office products at all? Replies included: "More reliable and cheaper than people"; "Relief of boredom, job satisfaction and better quality to our customers"; "Improve accuracy, improve speed of communication, reduce repetitive copy typing, ability to link text and data in reports."

So the message — and clearly the respondent interpreted that message liberally — is getting across. But no thanks to the government, according to PSI. 59 per cent of its sample thought IT'82 had made no impact on attitudes to the electronic office. A typical comment was: "We needed IT'82 in about 1979-80. By now it is too late for any company with even minimal electronic awareness."

The report *The Electronic Office: Progress and Problems* is available from PSI on 828-7055 at £5.00.

CELLULAR RADIO

Plessey release on its new chip

IN VIEW of the likely impact on the design of cellular radio equipment, Plessey Semiconductors has decided to release early samples of its new NJ8820 EXP chip, described by the company as "a new generation of radio synthesiser control circuits."

Modern mobile radios are allocated only a certain number of channels from the overall range of many hundreds by means of specially programmed PROM (programmable read-only memory). However, the circuits that control the frequency synthesiser do not easily interface with a PROM, says Plessey, and it often takes three or four more chips or even a micro to complete the design.

The new design obviates this and the NJ8820 EXP chip can interface directly with most micros.

In addition, the overall settling time has been reduced to a few milliseconds as opposed to hundreds in previous arrangements.

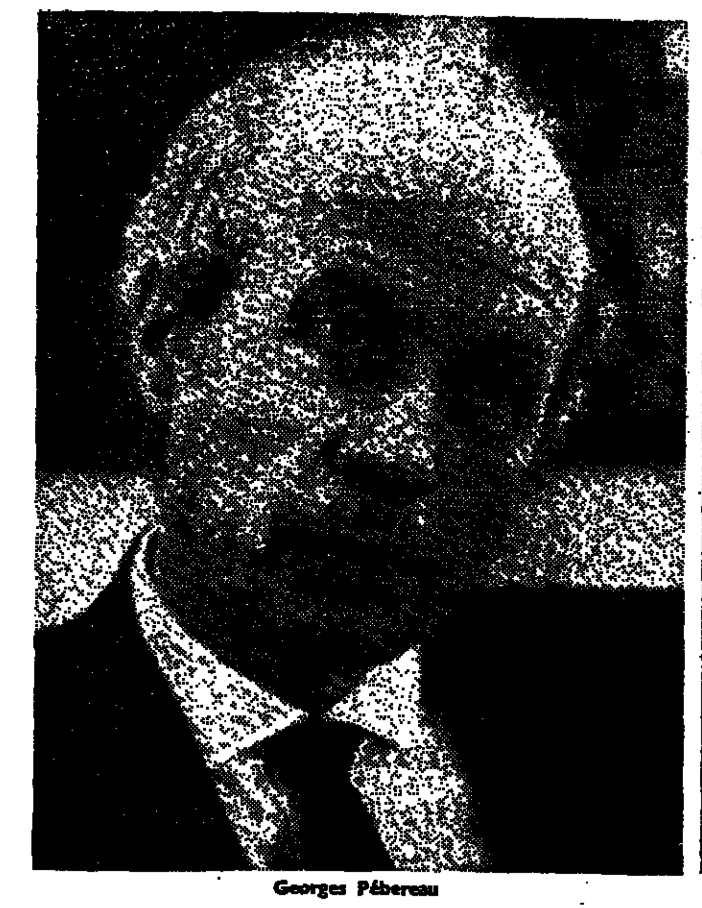
Rapid frequency changing is important in cellular radio to allow vehicles to be "handed on" from one cell to the next without noticeable interruption of service. More details from the company on 0793 36251.

THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

Living with state control in France

David Marsh on CGE's first year as a nationalised company



Georges Pébereau

Jean-Pierre Brunet

AMONG FRANCE'S battery of state-owned enterprises, Compagnie Générale d'Electricité, the fast-growing electrical conglomerate which is the country's biggest industrial concern outside the motor sector, is the closest to the Socialist Government—geographically, that is.

The splendid art nouveau headquarters of CGE, which has grown from its beginnings in 1898 into an international empire with annual sales of FFr 66bn ($8.9bn) are just down the road from the Elysee Palace in the bustling 8th *arrondissement*.

In political and decision-making terms, there is certainly more distance—thanks to the fact that, unlike the rest of the nationalised sector, CGE is still piling up profits.

The company's ride into the post-nationalisation era (it is the largest of the five big industrial companies taken over in February last year) has not been entirely smooth. But its well-heeled financial position and the evident efficiency of its management have protected it from some of the more excessive Government interference that has plagued other state companies.

Georges Pébereau, CGE's managing director, who is himself a symbol of continuity—he has been number two in the group's hierarchy for 11 years—sums up the company's position like this: "You don't change a winning strategy."

The main problems with the state have been, ironically, caused by the group's relative success. CGE has faced growing government pressure to use its financial muscle to absorb loss-making companies, and it has been irritated about the minimal amount of fresh capital it is receiving this year from its state shareholder, which is reserving the lion's share of available budget funds for the plentiful array of loss-making nationalised companies in hard-hit sectors like steel and chemicals.

The CGE group is centred around a holding company which has stakes in 350 companies across the gamut of electronics, electricity generation and transmission, transport, engineering and construction. Last year the group chalked up earnings of FFr 500m to FFr 600m—the only nationalised company to make a profit.

The best known subsidiaries are Alsthom Atlantique in engineering and shipbuilding and CIT Alcatel in telephones and electronics. Both companies, although mainly owned by CGE, also have a considerable number of private shareholders and are quoted on the Paris bourse—giving them a small degree of independence which they value.

Pébereau, who is also chairman of CIT Alcatel, says a process of "strategic concertation" with the Government had always gone on in the past. Now the dialogue was "more formal, more precise, more structured."

But the decentralised nature of the CGE group, permitting individual subsidiaries relative autonomy, had not changed, says Pébereau. "It could happen, but the Government has not asked us to change our strategy. We make money, develop our activities in a way which you can't say is bad."

Close co-ordination with the state has been of vital importance since well before the nationalisation. Group companies have played an important part in the two key public sector infrastructure projects which have helped change the face of France's economy over the past decade: the nuclear power programme (where Alsthom supplies the classical generating part of N-plants) and the progressive modernisation of the telephone system (CIT Alcatel is now the Post Office's most important supplier of electronic exchanges).

Alsthom has also played the leading role in the development of France's high-speed train.

With 40 per cent of turnover last year coming from foreign sales, CGE also relies greatly on financing support from the state and nationalised banks for exports.

Total orders won abroad last year came to FFr 40bn (48 per cent of total group orders of FFr 83bn) included power station equipment for Korea, Indonesia, Brazil, Iraq and Saudi Arabia; a housing project for Malaysia and telephone sales to India.

Indeed, one of the criticisms levelled at the group is that it has become too dependent on government-sponsored contracts, which reduces its ability to respond forcefully on more competitive markets.

Pébereau, 51 (he shares a birthday with Jacques Delors, the Finance Minister, who is six years older), is a sharp-talking engineer, educated at France's elite civil engineering academy, who also had experience in government as a top civil servant in the Equipment and Housing Ministry between 1966 and 1968.

The man in overall command is of a very different background: Jean-Pierre Brunet, 63, a former ambassador to Japan and West Germany, who was plucked out of the diplomatic listings to chair the group following nationalisation last year.

The donnish Brunet, who speaks impeccable English as well as German and looks and sounds as though he has just descended from taking tea at All Souls' in Oxford, takes a philosophical view of state intervention in French industry.

"The Government has always meddled in France. My predecessor (Ambroise Roux, who had good relations with President Pompidou, less good with President Giscard) was told one day to get out of making boiling water nuclear reactors, another day to get out of main-frame computers—under the Giscard government. I have never been told to do that. I've never had any phone calls. Up to now I can't really complain."

Nationalised industry bosses have been relieved at the government reshuffle at the end of March which saw the spectacular departure of Jean-Pierre Chevènement, the former Industry Minister, after a dispute with President Mitterrand over industrial intervention.

CIT Alcatel, hopes that his successor, Laurent Fabius, the previous Budget Minister, who has said he will follow a more "pragmatic" line, will give more backing to the company's telecommunications expansion plans.

The CGE group's main bone of contention with the state has, however, been the issue of financing. Under an agreement clinched just before Chevènement departed, CGE is being allowed to boost its capital resources by FFr 896m this year. But the bulk will come from issues of interest-yielding "participatory certificates"—intermediate in function between bonds and non-voting shares—which CGE, along with other state enterprises, will be issuing on the domestic capital market. Only a small part will come from an actual cash injection from the state to provide capital to back up expansion plans.

Brunet says: "It is true that we are in competition with the less profitable enterprises for available funds. One is never satisfied with the amount of money allocated by the Government. What we have decided in terms of financing and investment is just an interim measure for one year."

Although they have strong positions in "future-oriented" sectors like information technology or optical fibres, CGE companies are also present in a host of markets—headed by nuclear engineering and construction—which are feeling the pinch from the world recession.

But the group's confidence about the future is underlined by its plan roughly to double turnover over the next five years to FFr 135bn in 1987.

Under the medium term planning contract signed with Chevènement in February, CGE also committed itself to doubling exports over the next five years.

Emphasising the drive into the American market, Alsthom Atlantique plans to bid for contracts for high-speed trains in the U.S. (where it will be in strong competition with Japanese groups) by setting up a special U.S. subsidiary along the the Francorail railway equipment consortium.

The U.S. is also a particular target for CIT Alcatel, which with its E.10 system has a world lead in manufacturing electronic telephone switching apparatus.

CIT Alcatel is also talking with major European countries—Italy and Spain, for instance—on sales of the E.10 system. Other export targets, according to Pébereau, are the Far East and Latin America, where ITT has traditionally had a much stronger position than French manufacturers.

Pébereau says CIT Alcatel's estimated 30 per cent share of the world market for digital telephone exchanges (including material sold in France) would no doubt fall over the next few years as competition increased. But the company is taking a firmly unruffled line over the competitive threat from the new grouping between American Telephone and Telegraph and Philips.

One area where CIT Alcatel hopes for improved European co-operation is through a link in office technology with Olivetti of Italy. Negotiations have been going on for months, although without results up to now.

Brunet, who praises the negotiating talents of Olivetti chairman, Carlo de Benedetti, says: "We are the only two European companies making money in the automated office equipment market—that's undoubtedly a good reason for joining hands."

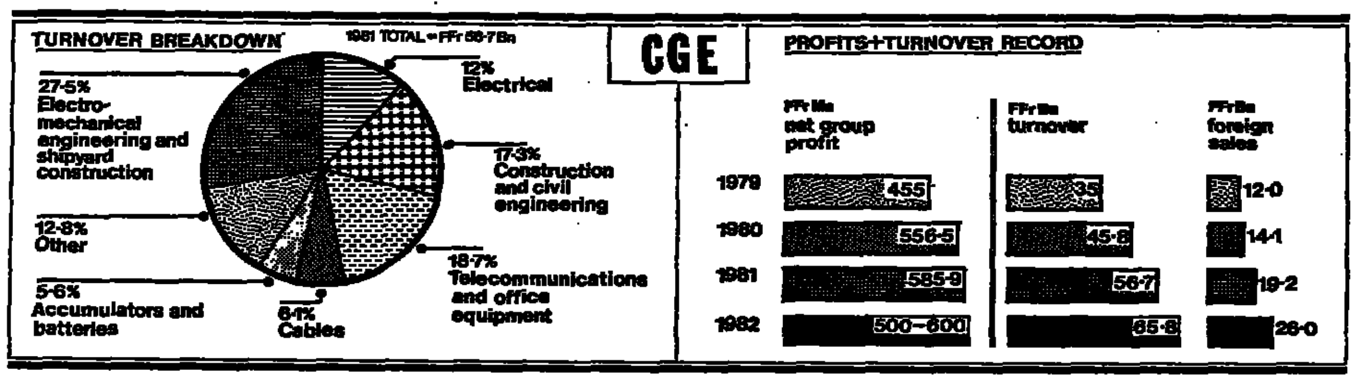
Inside observers doubt whether any speedy Olivetti-CGE link-up is probable. "Pébereau is like de Benedetti—he wants a lot and does not give away very much," says one. Office equipment has been one of CGE's weaker points up to now. The group has often shown a masterful touch in foreign acquisitions in other product areas, but the takeover of the Roneo, office equipment group of the UK two years ago has not so far been a success. Both Roneo and Friden, the U.S. office equipment group (which like Roneo is a subsidiary of CIT Alcatel) made losses last year.

The French Government is keen on an Italian link-up to forge closer ties between Paris and Rome across a whole swathe of industrial projects.

In other areas, there has been less meeting of minds. Alsthom Atlantique was irritated by interference from Chevènement's Ministry, which held up for more than six months the company's just-completed takeover of Compagnie Electro-Mécanique, a French electrical engineering company with strong interests in power station engineering, formerly owned by the Swiss-based Brown Boveri group.

One other case of government intervention preys on Brunet's mind — a company he had to give away. This was the electronics terminal-manufacturing company Transac, a former part of the CIT Alcatel group which has just been transferred to the national computer company CII Honeywell Bull as part of the Government's overall electronics strategy.

With the nearest a former diplomat can get to betraying a trace of bitterness, Brunet says: "I was told to kick it out. I didn't like to do it at all."



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THE ARTS

Design/Colin Amery

A new look needed for British industry

It was kind of the Queen to invite Sir Terence Conran to one of her Buckingham Palace lunch parties last week although rumours that the old place is to get the Habitat treatment have to be discounted immediately. Her Majesty was no doubt conveying the thanks of a grateful nation to Sir Terence for his undoubted influence for the good in all matters of design.

We should all be grateful because in Britain, rather than in Europe or America, it is so difficult to inspire industry with a real spirit of devotion to design matters. My colleague Christopher Lorenz has long been writing on the management page about the importance of good design for British industry and last week he and I both met the subject of one of Sir Terence's Boilerhouse exhibitions, Mr Kenneth Grange of *Pentagram designs*.

First of all I would like to say a few things about the Boilerhouse Project which is funded by the Conran Foundation and directed with considerable panache by Mr Stephen Bayley. At the moment it occupies a basement space in the Victoria and Albert Museum and has hosted a series of exhibitions about the work of industrial designers—most of them foreign.

It is not, like the Design Council, devoted to the promotion and protection of purely British designers. Like the V and A itself it aims to do the impossible—to present the best of all design to the world in the hope that emulation will follow. Stephen Bayley puts the aims very clearly and they are worth restating particularly as I do not think that they were made crystal clear when the Boilerhouse opened in January 1982.

He wants the place to be unashamedly educational. Following the objectives established by Henry Cole when the V and A was founded, the Boilerhouse Project intends to inspire, promote and drive home by all possible means the principles of good design. I would not call Mr Bayley a natural preacher, his approach is much closer to that of the world of advertising—he aims to persuade you that design is good for you. The Boilerhouse is the only non-commercial centre in London for the regular display of consumer goods. I always feel that the Design Council is a compromised body now that it sells such good coffee and such bad souvenirs.

How do you educate the world to the idea that good design is something that can be learned and mastered, that will make a difference to the whole of industry? The Boilerhouse exhibitions in the first year have shown the *how* of design as well as the why. I think that it would be a good idea if the exhbitions actually showed more about the processes of design—and indeed the popularity of the Ford Sierra show would seem to bear me out.

The great mistake of the first exhibition, "Art and Industry," was that it appeared to elevate a very eclectic range of consumer goods to the status of fine art objects. This was a worrying trend. Mr Bayley says that he knows what good design is—and I suspect that he prefers not to get too entangled in the realms of aesthetics or even, God forbid, art.

In his introduction to the catalogue of the present exhibition Mr Bayley writes that the design profession is exactly where the architectural profession was 100 years ago—"no one really being able to decide whether it should be a science or an art." I would say that things have not changed much in the architectural profession today—although my readers know that I am *firmly* on the side of architecture as an art.

I think also that the Boilerhouse exhibitions simply tell us that sometimes good design approaches the quality of a work of art but most of the time it does not. There is a difference—good design is a far more objective business than the creation of a work of art. There is a difference between a typewriter and a Tintoretto.

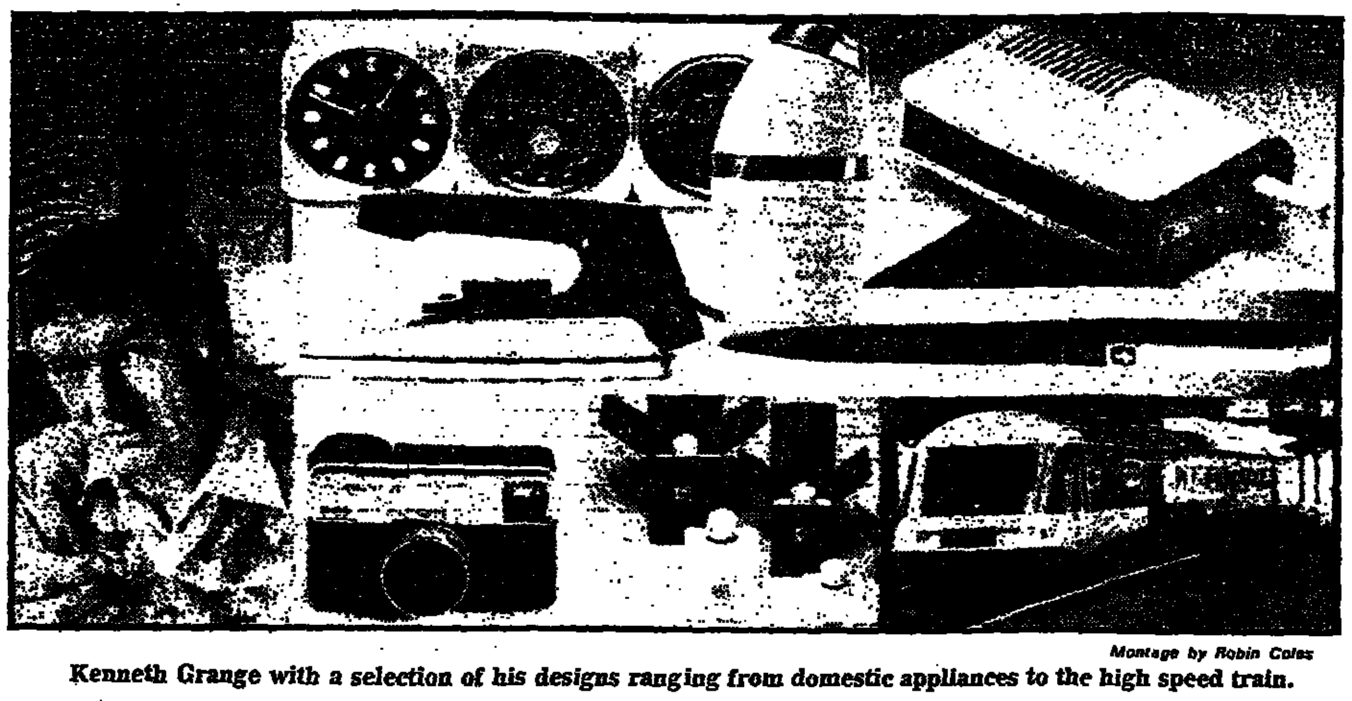
The present exhibition devoted to the work of one designer, Kenneth Grange (at the Boilerhouse until May 26), shows very clearly the exact sort of creativity that is needed in a good designer. Grange has designed for industry since the Festival of Britain, which he sees as the "opening of a golden two decades of British design." His designs for the *high speed train*, the parking meter, the Kenwood mixer and the Kodak camera are all familiar and understated.

There are moments of flash—like the sherry bottle with the swollen neck based on the Japanese saki flask, and the exciting post-modern light fitting that generates a warm draught from its stem. But most of this work is the result of solid hours of struggle on the drawing board, with tool makers and the members of the various boards.

Kenneth Grange writes the catalogue in his own unassuming words—and he is refreshingly honest about his real role. He writes as much about his failures and difficulties with unadventurous British firms as he does about his successes. It is depressing to read that there is not one company in Britain that Grange considers anywhere near the design standards of companies like IBM, Braun or Olivetti.

Reuters receives high praise, "the nearest we have in this country to a corporat patron of the arts." But it is even more depressing to read that, in Europe, Grange feels that the major corporations are drifting towards lower, rather than higher standards of design.

This is where the Boilerhouse project has already proved its worth—now perhaps it should aim more aggressively than ever at those in British industry who are responsible for poor design standards and disgustingly low visual standards. I am looking forward to its brave venture in the autumn when Mr Bayley is tackling the delicate area of taste—can he tell us with confidence the difference between good and bad—or will the evidence just show us why we so often weakly compromise?



Montage by Robin Coles

Kenneth Grange with a selection of his designs ranging from domestic appliances to the high speed train.

Swan Lake Covent Garden

Clement Crisp

Revisionist! — that hallowed term of political abuse — is an accusation to be hurled at almost every producer who seeks to have his way with the 19th century dance classics. Twisting and tormenting the old ballets, turning them into exploration's of the princely hero's psyche or favourite game, giving us "the ballet Chaikovsky intended", has become during the past two decades an activity meriting the attention of a league against cruel theatrical sports.

An honourable exception, and probably the only one, is the Peter Wright/Galina Samsova recension of *Swan Lake* which the Sadler's Wells Royal Ballet has now brought to Covent Garden. I admired it greatly at its Manchester première 18 months ago, and Saturday night's performance confirmed that first impression.

From the moment when the curtain rises during the overture to reveal the royal funeral procession with Siegfried mourning his father's death, dramatic logic and poetically apt visual imagery are the declared intention of the staging, and these are maintained throughout the evening.

Philip Prowse's superlative designs propose a setting of bold architectural shapes in which massive and opulent costuming proclaim a darkly brooding Gothic magnificence, and establish a world in which tragedy and magic find their proper emotional weight; the production, the new choreography and, where necessary, the revisions to the established text, are sensitive, purposeful without becoming wilful.

Above all else, the presentation is expertly tailored to the forces and capabilities of SWRB. Some 50 dancers are so skilfully deployed that their number might seem double, and though the company could with advantage be permanently increased by another dozen dancers, we are never subjected to that ludicrous "*Aida*-procession" phenomenon, when supernumeraries come round a second time in different hats to plump out a staging.

This presentation is important as a companion piece to the Royal Ballet's historically more correct (albeit artistically moribund) version which, alone in the world today, provides a decently credible account of the Maryinsky Ur-text. But how welcome are Peter Wright's alternatives in the court scenes to the usual run of scampering peasantry and the dead wood of goblet-waving nonentities with their mad hats and bent knees and disaffected smirks, and how skilled the introduction in the third act of the divertissements and the prospective fiancées.

At every moment Mr Wright and Miss Samsova have provided dramatic coherence, and their innovations — the insistance on von Rothbart as a powerful evil force; Benno bringing the drowned figure of Siegfried from the lake—assert the prince as a pivotal figure in the drama without minimising, as do most of the recent Prince's-Lib stagings, the fact that *Swan Lake* is a ballerina-vehicle no different from any other of Petipa's Maryinsky spectacles.

There will be much to report about later showings this week, but I record that on Saturday night SWRB's artists were on their best form; that the corps de ballet of swans was excellent; that solo roles were brightly done (Roland Price bravely soaring as Benno); and that Margaret Barbieri was an Odette/Odile too sweet for my taste. Desmond Kelly, unfailing in nobility, was Siegfried; the two leading swans, Mandy-Jayne Richardson and Clare French, were very fine.

Iain Hamilton's Passion

Max Loppert

The latest stage in Iain Hamilton's development as a composer of tonal music was to be marked, at St John's, Smith Square on Friday, in the first performance of his Passion According to the Gospel of St Mark.

This full-length work for chorus, soloists, and chamber orchestra, constructed upon the baroque model, is bulked out by the deployment of hymns, some well-known, where Bach might have positioned his Lutheran chorales; and by a selection of poem texts (by Vaughan, Crashaw, and Donne) to serve for the arias of reflection for the solo quartet.

The work runs in two almost equal parts and almost continuously. The manner of eliding recitative into aria and chorus, carefully and unobtrusively done, is only one sign of a mature and experienced composer at work; the compression of so much text, none of it repeated, into a relatively short space of performing time is another.

This St. Mark Passion is, no doubt of it, a "well-made" work—it is filled with music, clearly laid out, that is obviously grateful to sing, and the London Chorale, supported by the New London Sinfonia under David Coleman, rose to it with palpable enthusiasm. But at no point in its passage does it feel like a *necessary* work. The problem of Hamilton's current musical language is not its re-absorption of tonal processes (evidenced at the very opening, in which C and E provide poles of tonal contrast), but rather the want of tension in the working out of those processes.

There is, indeed, no sense of real dramatic tension anywhere in the piece; one appreciates the formal construction as a solution to a chosen task, not for any genuine acquisition and discharge of musical and dramatic pressures. In fact, the whole experience was a decidedly curious one: a text charged with the most potent spiritual burden and poetic intensity, and here reduced by music to a level of bland, super-professional neutrality.

The vocal quartet, all members of the English National Opera (and all employed there, not so long ago, in Hamilton's *Anna Karenina*), were Lois Marie Owens (mezzo), Geoffrey Pogson (tenor and Evangelist), and Alan Opie (baritone and Jesus).

All delivered themselves with a commitment that one must assume to be entirely sincere; Miss McDonall's top Cs, in the ensemble that closes the first part, were strenuous, but they added a note of excitement to an otherwise notably unexciting evening.

Hamlet/Theatre Royal, Bath

B. A. Young

Christopher Fettes's touring *Hamlet* for the New Shakespeare Company, which I saw last week at Bath's pretty Theatre Royal, is in modern dress but not the modern world. The Ghost (Bob Smith) far from being "armed at point exactly," is a dancer wearing very little and speaking only by way of a tape. His threatening attitudes towards his son hardly justify the conclusion that he is an "honest ghost."

The production, with one interval falling (too soon) before the play, lasts four hours, although the text is pretty heavily cut. This is mostly due to the slow playing of the company. Donald Pickering's Claudius—handsome in his smart gear—presents the King's feelings impeccably, but at half speed. Even the arrival of two riflemen with fixed bayonets to support Laertes's insurrection doesn't arouse him much, perhaps because he knows how languid that young man (John Sommerville) is likely to be in carrying out his threats.

The slim, active little Prince with a mop of curly hair is Hilton McRae. He is bad tempered and excitable, missing the fun in Hamlet's comic lines, apt to break into a hoarse shout too often. He enjoys throwing people to the ground; Rosencrantz, Guildenstern, Laertes and Ophelia are sent sprawling in their turn, and even poor old Polonius (amiably played by Trevor Baxter) is gripped in a wrestling hold when he is quizzed about the cloud-formations. Mr McRae is good in the excited nonsense he has to speak after the Ghost has danced off, but better, in, for example, "How all occasions"—when he shows enough control not to overemphasise his accents. He is best when he forgets that he is speking verse. I should like to see him as *Coriolanus*.

He is accompanied by a Horatio (Stuart Fox) bespectacled as the fashion is, who wears a suit that picks him out at Court as one of lower class, a mature student, perhaps. Hard to see what prompts Hamlet's special affection for him, which Mr McRae makes discreetly clear, more than he does for Ophelia.

Sarah Swingler, making her debut as Ophelia, has some way to go yet. She sings her mad songs as prettily as if she expected Gerald Moore to be sitting at the piano, and her distribution of wild flowers, charming enough to listen to, is simply a recitation. Sally Ann Howes is a dignified Gertrude, though somewhat untouched by what is going on around her. When, in Act One, Hamlet snaps "I will in all my best obey you, madame," in a tone of insolent fury, with his back to her, she looks as if she agreed with the King that this was a loving and a fair reply. She never even looks where Hamlet claims he can see her late husband, when the Ghost (now correctly dressed "in his habit") visits them in her closet.

The set by John Otto curtains an acting area centre stage, isolating the principals, and leaving spaces in the wings for characters who are just listening behind an arras.

The feeling is deliberately artificial throughout. The dumbshow is a little *pas de trois*, to which the King pays no attention. When he calls for lights, Hamlet obliges with the built-in flashes of a pocket camera. Rosencrantz and Guildenstern wear similar overcoats and carry canes in all circumstances. There is loud incidental music from taped orchestras; at moments of tension, a kind of electronic pedal note supports the speech. I felt that in one way you could compare this production with Peter Brook's Dream; if you know the play well enough, you can ignore the visual contradictions of what it is really saying. The production moves on to Brighton, where it opens tonight.

Hilton McRae and Sally Ann Howes

Christian Blackshaw/Elizabeth Hall

Max Loppert

Christian Blackshaw offered on Thursday an intelligently planned programme, which he executed with unfailing authority and an almost unflappable precision. The impression of dullness that the recital left, though quick to be caught, is one that could be rather less immediately pinned down in words.

What was missing in his playing of Schubert, Mozart, Liszt, and Schumann was any sense of spontaneous impulses, any intimation of dramatic pressures on the performance, any animal heat; and so all the undeniable technical mastery on display very soon began to seem one-dimensional, the fastidiousness of touch and seriousness of approach rather too easily mistaken for a limited emotional range.

The opening soon alerted the listeners to the prevailing manner. Schubert's little C minor Allegretto, D915, which Mr Blackshaw stretched out, at a slow pace and with a scattering of long, "meaningful" pauses, well beyond its natural capacity. (How perfectly, on Schnabel's famous record, the miniature is gauged and flicked off, how taut the rhythms and light the colour-tints!)

The Mozart sonata, K310 in A minor, was similarly careful, thoughtful, charmless: and though in Liszt's *Venezia e Napoli* the streams of notes were precisely traced, there was a near-total absence of delight in sound, of glitter and legerdemain, sufficient to turn the reading into a superior technical exercise. Mr Blackshaw finished in the mood he had begun, with Schumann's Fantasy. A programme leaflet containing two-and-a-half small pages of notes and four paragraphs of biography was priced at 50p.

Autumn season at Royal Exchange, Manchester

The Royal Exchange Theatre in Manchester has announced plans for the autumn season. It begins on September 15 with Strindberg's *The Dance of Death* directed by Kenneth MacMillan, starring Edward Fox and Jill Bennett. *Hamlet*, directed by Braham Murray with Robert Lindsay in the title role, opens on October 27.

A new version of *Moby Dick*, adapted and directed by Michael Elliott and starring Patrick McGoohan, plays over the Christmas period from December 22. This production will form the basis of a Granada TV presentation to be recorded in a large studio after the manner of the recent Granada *King Lear*. The designer of Olivier's Lear, Roy Stonehouse, will design the TV version of *Moby Dick*.

Finally, O'Casey's *The Plough and the Stars*, directed by Gregory Hersov, will open at the Exchange on February 9.

Arts Guide

Music/Monday, Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

Music — May 6–12

NEW YORK

New York Philharmonic, Andrew Davis conducting. Vaughan Williams, Elgar, Dvorak (Wed, Thur). Avery Fisher Hall (874 2424).

Alfred Brendel, piano. Beethoven. (Mon, Thur). Carnegie Hall (247 7459).

Philip Glass with Philip Glass Ensemble. Paul Zukofsky, violin (Tue). Carnegie Hall (247 7459).

Guarneri String Quartet: Brahms festival (Tue, Thur). Kaufman Hall (1395 Lexington, at 92nd. 427 4410).

Music from Marlboro: Beethoven, Hindemith, Mozart (Mon). Alice Tully Hall (362 1911).

WASHINGTON

National Symphony: Peter Maag conducting. Emanuel Ax piano. Haydn, Mozart, Brahms (Tue, Wed, Thur). Concert Hall, Kennedy Center (254 3776).

Peabody Symphony: Peter Eros conducting, Ciao Pagano piano. Prado, Pone, Enriquez, Gould (Mon). Concert Hall, Kennedy Center (254 3776).

Terrace: Pamela Coburn, soprano recital. Schubert, Wolf, Puccini, Rachmaninoff, Bizet (Mon): Orpheus Chamber Ensemble, Richard Goode piano. Haydn, Mozart, Strauss, Bartok (Tue); John Browning piano recital. Debussy, Ravel, Liszt (Thur). Kennedy Center (254 9895).

CHICAGO

Chicago Symphony: Leonard Slatkin conducting, Donald Peck flute. Finzi, Telemann, Shostakovich (Wed, Thur). Orchestra Hall (435 8122).

VIENNA

Konzerthaus (721 211): Vienna Philharmonic, conductor Lorin Maazel. Opening concert of the Vienna Festival. Schubert and R. Strauss. (Thur 11am); NHK orchestra Tokyo, conductor Wolfgang Sawallisch. Walter Klien, piano. Schumann, Blacher, Mozart (Thur).

Secession. Festival of Ensembles representing minimal and new music. Ensemble 13 (Tue and Wed); Terry Riley (thur).

LONDON

Philharmonia Orchestra and Chorus conducted by Vladimir Ashkenazy with Sheila Armstrong, soprano, Ryland Davies, tenor and John Shirley-Quirk, baritone. Rachmaninov and Sibelius. Royal Festival Hall (Mon). (928 3191).

Philharmonia Orchestra conducted by Vernon Handley with John Lill, piano. Rossini, Rachmaninov and Elgar. Royal Festival Hall (Tue).

Bournemouth Symphony Orchestra and Chorus and Bournemouth Sinfonietta conducted by Uri Segal with Sheila Armstrong, soprano and Alfreda Hodgson, contralto. Mahler's second symphony. Royal Festival Hall (Wed).

English Bach Festival: London Oboe Band. Purcell Room (Wed). (928 3191).

Royal Philharmonic Orchestra conducted by Kurt Masur with Elisabeth Leonskaja, piano. Tchaikovsky and Bruckner. Royal Festival Hall (Thur).

English Chamber Orchestra and Tallis Chamber Choir conducted by Michael Tilson Thomas. Mozart and Beethoven. Barbican Hall (Thur). (638 8891).

PARIS

Chamber Music – Sylvie Carbonnel, piano, Nina Bodnar, violin, Herve Derrien, cello: Mozart, Chopin, Brahms trios (Mon) Radio France, Grand Auditorium (524 1516).

Inger Soedergren recital: Scarlatti, Beethoven, Schubert (Mon) Theatre des Champs Elysees (723 4777).

Arocea – choral festival 1983 (Mon) Salle Pleyel (563 8873)

Concert Lamoureux conducted by Jean-Claude Bernede: Mozart's coronation mass, requiem (Tue) La Madeleine Church (563 4434 11am – 4pm)

Orchestre Colonne conducted by P. Dervaux, Mark Zeltser, piano, Jean-Michel Vinit, horn: Fouad, Rachmaninov, Strauss (Tue) Theatre des Champs Elysees.

Ensemble Orchestral de Paris conducted by Claude Bardon, Sequeira Costa, piano, Jean-Pierre Wallez, violin: Beethoven, Hindemith, (Tue) Salle Gaveau (563 2030).

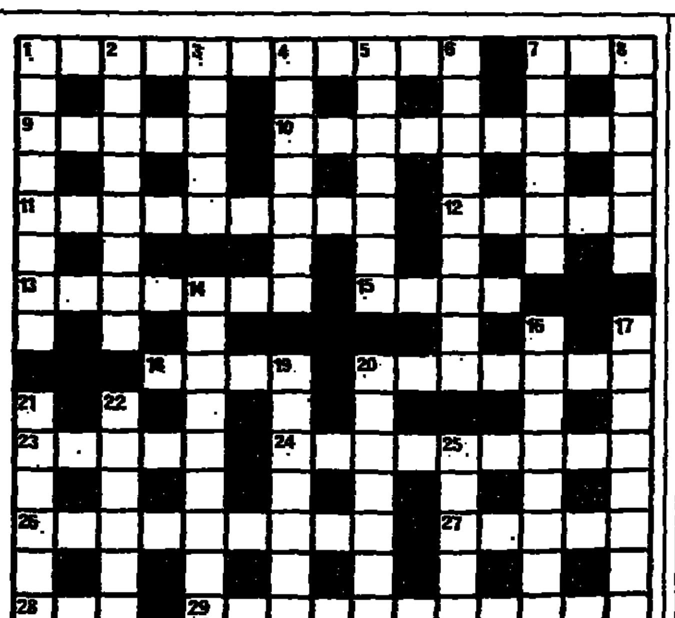
Orchestre National de la BRT conducted by Yevgeny Svetlanov, Victor Tretiakov, violin: Beethoven, Glazounov, Tchaikovsky's Pathetique Symphony (Tue) Salle Pleyel.

Nouvel Orchestre Philharmonique conducted by Jerzy Semkov, Stephen Bishop-Kovacevich, piano: Mozart (Wed) Radio France, Grand Auditorium.

ZURICH

Tonhalle: Tonhalle Orchestra conducted by Moshe Atzmon with Karl Engel, piano. Brahms and Mozart. (Tue 8.15pm). (01–201 1580).

F.T. CROSSWORD PUZZLE No. 5,166



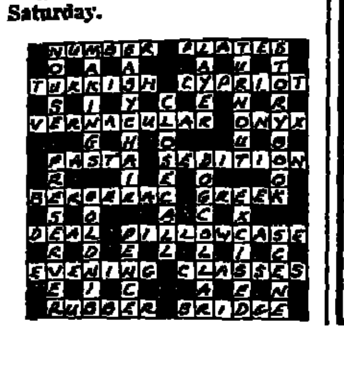
ACROSS

1 Firm provision for retirement (7, 4)
7 Objective I am out to get (3)
9 Just correct (5)
10 What he wants is no good to another (3-6)
11 He parades, representing the most advanced troops (9)
12 No head on the beer, that is strange (5)
13 Unfit to be an eminent person? (7)
15 New star could make a comeback at Stratford (4)
18 Use the wrong sort of tackle, perhaps (4)
20 Of Romanic origin, he was involved in early radio (7)
23 A joining of hands in marriage or work (5)
24 Flew round in a miraculous way (9)
26 It isn't slow to lift itself out of the water (9)
27 Behave awkwardly when put out by the bill (3, 2)
28 The French way to feel regret (3)
29 Got lineages from him? Yes! (11)

DOWN

1 Carefully going through a South American country to make notes (8)
2 Gives a slight omission? (8)
3 Nitre, perhaps, put into the ground (5)
4 New native quarter shows simplicity (7)
5 Led a nun astray, but not charged! (7)
6 Come round by car, but not via the underpass (5, 4)
7 Join a number in this place (6)
8 A wave from Proust? (6)
14 Swedish striker who won't be seen in court any longer (5, 4)
16 Paper thrown at the match (8)
17 It had literally a very small population (8)
19 Common knowledge (3-4)
20 Paper used for wrapping a cigar (7)
21 Moving spirit behind drug sales (8)
22 It may be used to sort out a difficult problem (6)
25 Time to muse (5)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.



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BRACKEN HOUSE, CANNON STREET, LONDON EC4P 4BY
Telegrams: Finantimo, London PS4. Telex: 8954871
Telephone: 01-248 8000

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Lifeline for Ravenscraig

AT FIRST sight there is something distinctly odd about the idea of loss-making, nationalised British Steel helping to finance the modernisation of a 30-year-old Pennsylvania steelworks belonging to United States Steel Corporation. Yet the proposed joint venture, which has been under discussion for some weeks and is now nearing the point of decision, could provide a neat solution to two pressing problems—on the British side, a surplus of modern steel-making capacity and, for the Americans, a need for a secure source of competitively priced semi-finished steel. Whether the deal makes commercial sense for the British taxpayer depends on details yet to be revealed, but it would be a pity if trade union and political opposition on both sides of the Atlantic frustrated what looks like an imaginative attempt at international rationalisation.

British Steel has five major steel-making sites — which is at least one too many for the foreseeable level of demand. Last year the management wanted to close Ravenscraig in Scotland and to load the other four plants more fully, at a saving then estimated at £100m a year. But the Government insisted on keeping Ravenscraig open. As there is no reasonable prospect of selling anything like the full amount of finished steel that Ravenscraig is capable of producing, BSC is carrying a heavy financial burden.

Yet a great deal of money has been spent at Ravenscraig in recent years, particularly on primary steel-making and continuous casting. While its location for handling imported iron ore and coking coal is not as good as that of the plants at Teesside and in South Wales, it is a great deal better than most continental plants, which are situated inland.

British Steel has already supplied semi-finished steel to the U.S. from other plants; an important contract was won early last year to supply slabs to Kaiser Steel in California. But in that case British Steel was one of several suppliers; there was no guarantee of continuity of business. The proposed agreement with U.S. Steel is more ambitious. Fairless is an old works which has not been kept up to date in equipment or technology; it even makes steel by the open hearth process, which has virtually disappeared in Europe and Japan. But it has the great advantage of being well situated to supply steel consumers in the eastern U.S.

To modernise the entire works, including the steel-making facilities, would be enormously costly and, it appears, not financially attractive. U.S. Steel wants to close steel-making, invest in modernising the finishing plants and buy semi-finished steel from outside. It could buy from a variety of sources; the UK is not the only country hungry for business. But it would apparently prefer an arrangement with a single supplier who would provide all the steel needed at a consistent quality and would have a long-term commitment to the venture, through an equity interest in the Fairless business.

In order for BSC to meet the volume requirements, it would have to dedicate the entire steelmaking capacity of Ravenscraig—about 2m tonnes a year—to Fairless and supplement this with up to another 1m tonnes from other works. Ravenscraig's finishing mills would close, with the loss of some 1,200 jobs, but the other 2,800 jobs there would be put on a more secure basis than they are now. The rest of BSC would reap the operational and financial benefits of better plant loading as well as some significant new orders from Fairless. The extra business, consisting of semi-finished steel, would not run foul of the production quotas laid down by the European Commission.

Realities

The scheme seems to be an elegant solution to the commercial realities of Fairless and Ravenscraig; whether it meets the political realities is another matter. British Steel has to explain to a bewildered workforce and to sceptical politicians why investment in the U.S. is good for jobs in Britain. U.S. Steel, having led the campaign against subsidised steel imports, has to explain why it is joining forces with Europe's most heavily subsidised producer. Hard-headed industrial logic may in the end be overwhelmed by nationalism and protectionism, but opponents of the scheme in the UK will have to answer one difficult question: where else will they find a market for 3m tonnes of British steel?

Consequences of a sugar surplus

INTERNATIONAL commodity agreements have so far proved a rather ineffective means of stabilising raw material prices but there is a lot more at stake than usual in the present talks in Geneva seeking to negotiate a new International Sugar Agreement.

For the first time in commodity pact negotiations the EEC is playing a leading, not to say dominant, role. The result could be important both to the European Community and to the many countries in the Third World which depend on sugar for the bulk of their export earnings.

The world sugar market is in a mess. A huge surplus of supplies has built up and prices are depressed well below the cost of even the most efficient production. The EEC has come under increasing criticism as being largely responsible for this situation. During the past 10 years the high prices paid to beet growers under the Common Agricultural Policy have transformed the Community from being a net importer of sugar into by far the biggest exporter on the world market. EEC exports account for over 5m tonnes out of total world free market sales of some 20m tonnes. At present the Community is paying exporters over £200 a tonne to bridge the gap between the high internal guaranteed price and the very low world price, depressed mainly by the surplus of EEC supplies.

Pressure

It is an absurd situation and the EEC has come under mounting pressure to do something. Compared with the dairy sector, the budgetary cost of the sugar regime is fairly small. In theory it is self-financing in that the cost of the export subsidies is reclaimed by levies on producers. In fact it is EEC consumers who are really paying and the cost to the budget is far from insignificant.

Under the special arrangement forced on the EEC by Britain as a condition of membership, the Community imports 1.3m tonnes of cane sugar from the ACP (African, Caribbean, Pacific) group of developing countries. But they justly complain that the EEC is undermining the price they get for the rest of their sales to the world market. Those countries which are not members of the ACP group have even more cause for complaint.

In particular there has been intense criticism of the EEC refusal to join the International Sugar Agreement, which is supposed to regulate the market with a system of export quotas that are varied according to price movements.

The existing agreement does not work. This is partly because its basic structure gives unrealistically high export quotas. But the main reason for its failure is the refusal of the EEC, now the biggest exporter, to join.

The Community has been forced by political pressure to change its mind, but it is in a strong position virtually to dictate its own terms for joining. It has come up with an alternative approach that may set an interesting precedent. The EEC has proposed that the main burden of controlling the world market should be left to the 10 main exporting countries, which account for about 80 per cent of total sales.

They would undertake to regulate their exports not by quotas but by accumulating stocks in times of surplus and releasing them in times of shortage. The stocks would be held nationally, but would be internationally controlled under the agreement. It sounds simple, but what is not clear yet is what action would be taken to prevent surplus stocks simply building up to insupportable levels.

The obvious inference is that output would have to be cut. The nub of the criticism directed at the EEC over sugar and other agricultural products, is that by paying too high prices to producers it encourages excessive production. EEC consumption of sugar has fallen to 9.5m tonnes a year, while production has grown to over 14m tonnes. Add on the 1.3m tonnes imported from the ACP group and it can be seen that there is a very strong case for cutting Community output of a product that provides the life-blood for the economies of many poor countries.

With or without a new international agreement, the EEC has to find a way of bringing excess sugar production under control. It can then move on to deal with the even greater problems in the dairy and grain sectors.

COMPUTERS: THE NEXT GENERATION

Britain enters the great race

By Alan Cane

"THIS is the first time in our history that we shall be embarking on a collaborative research project on anything like this scale." Mr Patrick Jenkin, Secretary of State for Industry, in the House of Commons on April 28.

He was giving the Government's backing to the Alvey report—a set of proposals designed to ensure that the UK has a fighting chance in the international information technology race.

Mr Jenkin used stirring words, delivered with conviction and enthusiasm. Yet he was discussing an area of industrial research so far removed, apparently, from everyday life and existing markets that one senior Department of Industry official muttered afterwards: "It is all speculative. We are talking about technologies that do not yet exist."

But the importance Ministers attach to the Alvey plan is underlined by the fact that the Government—in an unusual policy departure—has agreed that it must play a key role in creating the framework for collaboration between industry and academia in advanced information technology.

The report—drawn up by a team headed by Mr John Alvey, technical director of British Telecom — concerns advanced computer systems of such power and sophistication that they appear to behave in an "intelligent" manner. The Japanese call these "fifth generation" computer systems. The first generation of computer systems used valves; the second, transistors; the third, integrated circuits (what we know as silicon chips).

Now computer manufacturers are moving to fourth generation machines, using chips with a million or more components written on to a sliver of silicon. The combination of very powerful chips and highly sophisticated computer software (the lists of instructions which can make the machine behave as if it possessed intelligence) which will characterise the fifth generation simply does not exist at present.

So great are the commercial rewards, so great will be the national advantage to any company or country making a significant breakthrough into information technology, of which fifth-generation-like systems that the Americans, the Japanese and the French are all pouring large sums of money into the area.

The U.S., for example, spent an estimated $10.5bn in 1981 on research and development in information technology, of which 49 per cent was provided by the Government.

When Japan launched its quest for the fifth generation computer two years ago, it announced it was prepared to invest approximately $454m (1981 prices) to achieve its goal.

This Japanese initiative startled and frightened the rest of the computer systems world. Japan had already shown it could fabricate silicon chips as good as or better than the West, but few Americans or Europeans thought they had much to fear from them on the conceptual side of advanced computing.

The Japanese fifth generation proposals showed they had an acute understanding of what these machines should do and of their strategic significance even if they did not have the blueprints to start work.

To counter this last weakness, the Japanese suggested that fifth generation development should be carried out in conjunction with other countries, made proposals for collaboration with the U.S. and Europe and invited visits from potential collaborators.

The plan was met with a mixture of suspicion, enthusiasm and a range of competitive schemes from a world fearful of losing the biggest video game of them all — a world market worth a possible £150bn a year by 1990.

In the U.S., the Pentagon warned of the dire consequences of letting the Japanese steal a lead.

The EEC Commission put up a set of proposals for a collaborative research programme in electronics research and development called Esprit. Backed by about £25m, this has the support of a dozen European companies such as Philips, Siemens, GEC and ICL. Half the funds will come from industry and half from the EEC.

In the UK, the Alvey Committee called for a directorate which would take the commanding role in commissioning projects, a steering committee and £350m in funds over five years to support four technologies basic to advanced computing: the fabrication of super-powerful silicon chips; improved ways of writing computer software; betters means for humans to communicate with machines; and the incorporation of artificial intelligence into computers — so-called expert or knowledge based systems.

The latter involves feeding as much expert information as possible about a given topic into a computer's memory. The computer is then equipped with a set of rules, also derived from the experts, to use the information to reason and make deductions.

The committee also asked for 100 per cent funding for academic research and 60 per cent funding for industrial collaboration, "the exact amount varying from 90 per cent to 50 per cent depending on the particular activity."

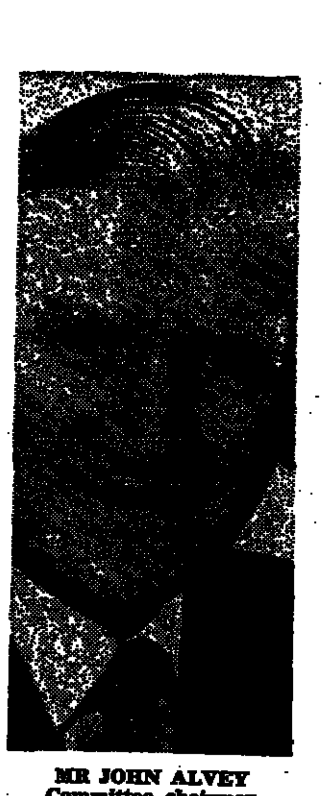
The Government agreed to a directorate, to be headed by Mr Brian Oakley, currently secretary of the Science and Engineering Research Council, the principal channel for diverting Government money for scientific research in the universities and polytechnics.

Alvey also got its steering committee, to be chaired by Sir Robert Telford, chairman of GEC Marconi.

It even got its £350m—to be squeezed from existing budgets in the Department of Industry, Department of Education and Science and the Ministry of Defence. While academic research will be supported 100 per cent, industrial work will only be supported to the tune of 50 per cent—apparently a personal decision by Mrs Thatcher.

While there is unanimous relief that the Government is taking a serious view of fifth generation projects, there is disagreement over whether its funding proposals give sufficient incentive to industry.

Mr Derek Roberts, research director for GEC and an Alvey member, finds the Government response very satisfactory: "This is an improvement on the original proposals. Asking industry for a 50 per cent contribution is essential to ensure commitment."



MR JOHN ALVEY
Committee chairman

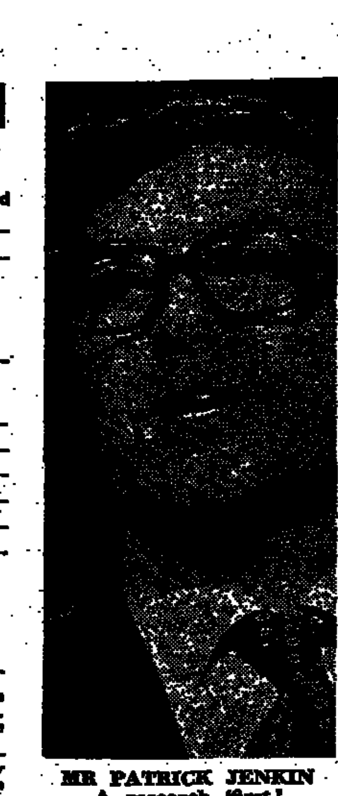
SUPPORT FOR INFORMATION TECHNOLOGY

The Department of Industry's programme

Scheme	Funds available £m	Applications for funds	Offers of funds	Funds committed £m
MISP	55	131	111*	55*
MAP	85			
awareness programme				4.4
training programme				4.9
consultancy		4,782	3,665	4.7
projects		2,082	948	36.6
CAD/CAM	16	awareness programme		1.8
CAD/MAT	9	awareness programme		3.6
Equipment	12	392	224	6.6
FMS	60	75	7	1.2
Fibre optics	40	67	46	34
Robotics	10(flexible)	302	112	9.5
Software	10	122	59	4.5
Telecoms	5	only initiated in March 1983		na
Special applications:				
Office automation	5.5	na	na	5.5
GP's micros	2.5	na	na	2.5
Schools (primary)	9.0	na	na	9.0
Schools (secondary)	4.0	na	na	4.0
IT centres	11.0	na	na	11.0

* Programme still open for applications.
MISP: microelectronics industry support programme. MAP: microelectronics application project. CAD/CAM: computer aided design and manufacture. CAD/MAT: computer aided design, manufacture and test. Equipment: hardware for CAD/CAM/MAT. FMS: flexible manufacturing systems.

Note: Programmes in research and development for information technology are also funded through the Department of Education and Science (£100m in past 12 months) and Ministry of Defence (detailed figures unavailable).



MR PATRICK JENKIN
A research 'first'

The precedents for co-operation between industry and research centres are not encouraging

Mr Philip Hughes, chairman of Logica, a leading software house and also an Alvey member, takes the opposite line: "It will make collaboration between companies much more difficult than we had imagined. 50 per cent funding may mean the directorate will simply give grants rather than drive the programme."

Director-elect Brian Oakley agrees that 50 per cent funding will work against the small software houses, without capital resources and living on their cash flow, while the GECs of the world are sanguine: "To that extent I agree that it will make collaborative projects that much more difficult; but what is important is that the vital importance of fifth generation technology has been recognised."

Recognised by Government, yes; adopted by industry with enthusiasm, no. As Mr Alex d'Agapeyeff, a computer expert with a special interest in intelligent systems, says: "The brutal fact is that the City and industry at large are not convinced about fifth generation systems. The Japanese are."

Consider the following:

● At Unilever's Port Sunlight laboratories, a team working under A. G. (Tony) Baker has developed an expert system to help its scientists interpret infra-red spectrograms and thin-layer chromatographs. "These are not experiments," he argues, "these are working systems. They are very important to us in terms of competitiveness and as a way of ensuring expertise is retained. If one of our experts retires, we keep his knowledge in our system."

● At BL Systems in Redditch, Mr Brian Johnson and his team have an expert system called "Why my car will not start." "It is a bit like do-it-yourself brain surgery," Mr Johnson says deprecatingly, but all BL senior management are aware of the advantage the U.S. or Japan could gain by building cars using expert systems or building expert systems into their cars.

Mr John Leighfield, managing director of BL Technology, one of the UK's major users and creators of advanced information systems, says: "We have been flirting with expert systems for about 18 months; now we believe it is going to be an extremely important area."

● The Department of Health and Social Security has a major problem with records and filing. Now, with the help of the Government's computer agency, it is experimenting with an expert system to determine the basis on which social security benefits are paid.

The above shows that fifth generation-type technologies have already arrived, albeit in rough-and-ready form. Everybody seems to agree that for rapid progress, greater collaboration will be necessary.

The UK has great strengths in the key areas chosen by Alvey. Edinburgh University, Southampton University and the Rutherford/Appleton laboratory at Didcot in Oxfordshire are good at chip fabrication. Edinburgh, Cambridge and Imperial College, London are good at knowledge-based systems. (Prolog, a computer language for artificial intelligence proposed by the Japanese as the base language for fifth generation work, originated at Edinburgh). The precedents for co-operation between these research centres and industry are not encouraging.

In Europe, an EEC Commission initiative to create an independent computer industry based on Philips, Siemens, Telefunken and CII quickly failed.

In the UK, collaboration between GEC, Plessey and STC in the development of System X, the new generation of digital telecommunications equipment, was plagued with delays and difficulties. (Some might argue that if such slow progress was made when the end product was well defined and the value of the eventual market never in doubt, what chance is there of collaboration in a hazy concept like fifth generation machines?)

The old National Enterprise Board tried to market UK software expertise abroad through an umbrella marketing company, Insac, which fell apart disastrously through lack of any common aim among the partners.

Problems of collaboration aside, there are worries about commercial confidentiality, whether UK subsidiaries of foreign multinationals should be allowed to contribute to the programme, whether indeed, as Dr Frank Land of the London School of Economics has pointed out, it is more important to encourage international collaboration based on a strong domestic industry. Nevertheless there are some precedents that collaboration can work.

Lord Flowers, rector of Imperial College, points to Imperial Software, a software engineering company sponsored by the college, National Westminster Bank, Plessey and Pactel as the model for collaboration.

Mr David Fairbairn, director of the National Computing Centre, believes that Focus, a Department of Industry computer standards committee chaired by Mr John Butcher, a junior minister, is the model for the directorate.

Inevitably, the success of Alvey's ideas will depend substantially on Brian Oakley's strength and determination. As one industrialist convinced of the value of expert systems, put it: "The crying need is to get people bloody well using these systems. The talking just has to stop."

Men & Matters

No space

For months now it has been whispered that Luxembourg's ambitious scheme to launch its own TV satellite was being squeezed out by the equally ambitious projects of its powerful neighbours, France and Germany.

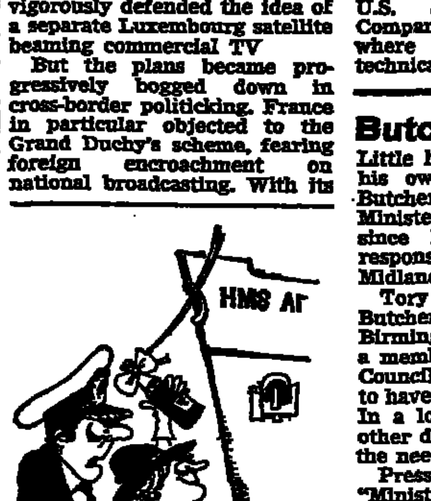
The abandonment of the Grand Duchy's plans now seems to be confirmed—Paul Heinerscheid, the man in charge of satellite development at the Luxembourg broadcasting company CLT, has left his job and has gone to work for a U.S. satellite company.

During his work for the Compagnie Luxembourgeoise de Telediffusion, Heinerscheid vigorously defended the idea of a separate Luxembourg satellite beaming commercial TV

But the plans became progressively bogged down in cross-border politicking. France in particular objected to the Grand Duchy's scheme, fearing foreign encroachment on national broadcasting. With its own plans to put up TV satellites in 1985 and 1986, Paris was able gently to discourage CLT shareholders (including the French state-owned advertising agency Havas) from putting up money for the FFr 2bn Luxembourg project.

Now France has offered the Luxembourgers a channel on the French TV satellite if they give up their own idea — an option which (although CLT is putting a brave face on things) the Grand Duchy is almost sure to follow.

In frustration at the impasse, Heinerscheid quit last month and is now working in a more free-wheeling environment better suited to his entrepreneurial talents — the U.S. Satellite Broadcasting Company in St Paul, Minnesota, where he is in charge of technical development.



"And for God's sake try not to crack the superstructure of this one."

Butcher's hook

Little honour for a prophet in his own country — as John Butcher, the junior Industry Minister, has been discovering since he was given special responsibility for the West Midlands.

Tory MP for Coventry SW. Butcher was educated at Birmingham University and was a member of Birmingham City Council. But that does not seem to have made his job any easier. In a local radio interview the other day, he was talking about the need to ride the punches.

Press reports dubbing him "Minister for the West Midlands" have already led to several rebukes from his Government superiors. Apparent special treatment for one region has brought complaints from other parts of the country.

Inside the region, Butcher has had to contend with unrest among one-time colleagues on the Tory-controlled Birmingham Council who protest that he seems too well-disposed towards the Labour-controlled West Midlands county council.

As the occupant of a marginal seat, he has also had to combat a certain cynicism within the business community about his role with a general election imminent.

The chief executive of one leading Midlands company commented at the last meeting of the regional council of the CBI that "Mr Butcher thinks we are too thick to fill in the forms asking for Government assistance . . . and is sending a team of experts to help us."

The laughter was followed by a pensive silence as the distinguished company pondered the prospect.

Out of gear

A resignation of some consequence at BMW, West Germany's sports saloon and motor bike maker: Dr Karlheinz Radermacher, management board member for research and development, is to leave at his own request.

Apparently Radermacher and the supervisory board did not see eye to eye over the next generation of BMW cars.

Some observers suggest that his departure now heralds a more revolutionary approach to BMW to car design.

Radermacher, who is 51, joined BMW in 1973 from SKF, the Swedish bearings group, and three years later was appointed to the supervisory board.

He has been dubbed "father of the BMW 3-series and 5-series cars." But there has been some criticism following the launch of the latest 3s and 5s about the minimal changes made to the body styles.

Radermacher in the past has frequently expounded the philosophy that society—and that includes the motor industry—must gear the pace and direction of technical progress to the real needs of the community.

At a recent BMW conference, he declared himself in favour of a "conservative" technology policy—"maintaining and upholding what has proved to be technically, economically and socially good, and introducing changes only where they are required and useful and at a pace that does not overtax mankind's powers of adaptability."

Spy story

Stockbroker Robin Bruce Lockhart, former member of the Financial Times staff and ex-Beaverbrook executive, now with Penney Easton, hopes to be dealing in roubles before the year is out.

The film and TV rights of his 1967 best-selling book "Ace of Spies," the true story of Britain's super-agent, Sidney Reilly, were acquired by Thames Television which has spent £4.5m on adpting the book into one of the most ambitious small-screen productions ever attempted.

Twelve hour-long episodes are to be networked this autumn and the series has already been sold to the United States and to Australia.

But 62-year-old Bruce Lockhart has now opened negotiations with Thames to reacquire the film and TV rights in the Soviet Union.

Although — or perhaps, because — the name of his father, the late Sir Robert Bruce Lockhart, was linked with that of Reilly in the so-called "Lockhart Plot" to assassinate Lenin and overthrow the Bolsheviks, he maintains contact with various members of the Russian media and believes that he can get the Russians to buy the series.

When the book was first published, Isvestia considered serialising it; and Reilly and the "Lockhart Plot" have been the subjects of at least one play, one film and a TV series in Russia.

Observer

FRANCE

The strains come to the surface

By David Housego, Paris Correspondent

Police clash with demonstrators in Paris last week.

THE FRENCH have had an uneasy sense of watching an old film being re-run over the past two weeks as they have seen riot police bringing down their truncheons on demonstrators in Paris where the smell of tear gas has lingered in the streets.

Nobody really believes that there will be a repeat of May 1968; but nobody totally rules out the possibility that street demonstrations could one day force President Mitterrand to call early legislative elections as many in the opposition fondly hope.

The demonstrations over the past two weeks—by doctors, farmers, students and retailers among others—have had very disparate roots. On the Left the general belief is that the common thread which links them is that they are being exploited by some right-wing groups. Last week, for example, Le Monde claimed in a front-page article that the Government had evidence of clandestine funding of the doctors' strike.

The Mitterrand Government does not for a moment regard the present demonstrations as a threat to it, but is on the watch to ensure that they do not get out of control and snowball into a movement that might pose a threat.

In January, former President Giscard d'Estaing listed the possibility of increasingly disorderly demonstrations and street violence as one of four alternative scenarios for France over the medium term. That was being recalled last week, after one of his former colleagues, M Michel Poniatowski, his Minister of Interior, raised the spectre of "a May 1968 in reverse."

M Jacques Chirac, the Mayor of Paris, and known to be among those who believe that M Mitterrand could be forced to choose between street violence and early elections, broke his silence on the demonstrations a few days ago to call for "a cooling down."

He added that the sources of discontent were manifold and deep.

Exacerbating this increasingly political conflict is the frustration of an opposition which sees the electoral horizon as disappointingly far away. The next legislative elections are not scheduled until 1986, and the presidential election not till 1988.

Circumstances now, it should be said, are very different from those of 1968. The revolt then was of a generation bored with prosperity and growth. By contrast, the economy has now ground to a halt, living standards are about to take their sharpest dip since the war and unemployment is likely to move upwards again—a combination that in other Western democracies has effectively dampened down militancy.

In 1968 what posed the real threat to the Government was that thousands of strikers added their weight to that of the students. Today both the pro-Socialist CFDT union and the Communist-led CGT are agonisingly aware that if they take to the streets as well this could be the flash-point that brings down the same left-wing Government which they have fought so long to establish.

In the difficult months ahead, the Government's strongest card is the reluctance of the unions and their rank and file to risk strike action that could get out of control—and also their readiness to match the Right if the battle does shift to the streets.

If the demonstrations are a sign of a growing challenge to the Government's authority, they are as yet by no means the worst of its headaches. Almost nothing has gone right for the administration in the seven weeks since the devaluation of the franc and the courageous austerity package that followed. The goals then set of bringing inflation down to 8 per cent by the end of the year and halving the trade deficit to FFr 45bn (£3.9bn) now look like pipe-dreams. They have been bowled off course by the unexpectedly sharp 8 per cent appreciation of the dollar against the French franc since mid-March. Even the official statistics institute INSEE has cast doubt on the feasibility of meeting the original targets.

The franc is again under pressure, victim of the market's judgment of the economy and its unease at the degree of discontent reflected in the demonstrations on the streets. This has been enough to re-open within the Socialist Party the whole question of France's continued membership in the EMS. It was an issue that had apparently been buried by the realignment of European currencies in March, but it has already resurfaced to haunt the Government.

The Administration insists that it has put its economic strategy in place, that in time the deflation of demand will bring down prices and imports, and that it will hold to this course. This was the message drummed home by President Mitterrand when he visited the north a fortnight ago and it was repeated by M Pierre Mauroy, the Prime Minister, last week. The problem is that the Administration, having muffed its lines during three previous devaluation crises and having left a damaging impression of indecisiveness, now has a difficult credibility gap.

There is little doubt that over time — "the difficult six months" that M Jacques Delors referred to in what President Mitterrand has already characterised as likely to be the most difficult year of his presidency—the austerity package will slow down imports and inflation. The waiting is agonising for the Government and its supporters.

The Socialist and Communist parties are already uneasy at applying deflationary recipes which are applauded by their liberal/conservative neighbours in Europe, but resented by their own rank and file.

The strain of watching many of the party's major goals forcibly shelved by the recession—and differences over what the Government's future policies should be—have revived all the old divisions within the party. Worse still, the Government's policies have come under fire from such Mitterrand "loyalists" as M Christian Goux, the Socialist President of the Finance Commission in the National Assembly, who wants direct limits on imports to safeguard jobs; and M Jean Poperen, the number two in the party, who has said the Left risks losing its popular support.

For the unions the dilemmas are just as difficult. Without much doubt the CGT would under any other government, have by now brought out its rank and file to forestall further steel closures in Lorraine. But they are nailed to the cross of the Communist Party's membership of the Government and their fears that at this stage militancy could play into the arms of the Right. The danger is that the decision on what action to take could be removed from their hands by a disillusioned rank and file who suddenly vent their impotent frustration in violence.

The Government is meanwhile fully aware that it has a great many more hurdles to cross as its deflationary measures begin to bite into household incomes and jobs.

The measures were designed to weigh most heavily on the middle and upper income brackets—in other words social groups which stretch across butchers and bakers, cafe owners and hotel-keepers, the self-employed and the small businessmen, executives and government servants. In meeting this "establishment" head on, the Government knows it risks stirring up the corporatist feelings that were at the heart of the Poujadist agitation in the 1950s and that all these groups could follow each other on to the streets. The Government's hope is that it can prevent them linking up.

From the autumn it will start negotiations with the unions over salary claims. It is critical to the Government's whole anti-inflationary strategy that it holds wage levels this year to the 8 per cent norm (thus resisting additional increases if inflation should be above that level) and brings wage settlements next year down to around 5 per cent. The first test will be the 4m civil service workers.

In the autumn, also, the Government faces the first Socialist Party Congress in two years. M Jean-Pierre Chevenement, the dismissed Industry Minister, seems likely to press his view for an alternative policy based on more industrial intervention, a "national independence" policy that implies higher levels of protection and possibly a withdrawal from the EMS.

The Government would be in a far stronger position to enforce more moderate wage settlements and to ward off challenges at the Congress if it could demonstrate more effectively that its policies are working. Inflation and the trade deficit should be coming down by then—but quite possibly not at a pace to ward off speculation against the franc and renewed talk of a devaluation. Hence the growing belief—fanned by remarks by both M Delors and M Mauroy—that the Government will resort to further measures.

The radicals in the Socialist Party, some of whom have the ear of President Mitterrand, have convinced themselves that these will eventually take the form of direct restrictions on imports through an import deposit scheme or use of the EEC safeguard mechanisms. The advantage of these is that they would accelerate the contraction of the deficit and please a majority in the party.

On present trends the pressures for another devaluation are strong, because the strength of the dollar has badly undermined the austerity package. And there is no way that France in the short run can match West Germany's anti-inflation performance.

President Mitterrand cannot be expected to go through again the nightmare of mounting speculation and falling reserves that prefaced the last two devaluations. He turned down pulling France out of the EMS last time partly because the foreign exchange reserves by then were so low that the Government could not have defended a free floating franc.

Now the reserves have built up again and it is open to him to make a pre-emptive strike against speculation on the franc by withdrawing from the system. But there are still powerful elements within the Government who believe this would be a serious mistake and would fight it all the way.

Lombard

A new look at summit issues

By Samuel Brittan

THE PARIS-BASED Organisation for Economic Cooperation and Development is attempting to find a new approach to questions of world economic growth and inflation, which if adopted could lay the foundations for a more constructive Williamsburg summit than at present seems likely.

At the moment the climate of relations between some economic policymakers in different countries is, frankly, bad-tempered. The argument between those who want to control the money supply, and those who want to set a target for real output (hoping thereby to promote employment) is still going on as if nothing had happened since the late 1960s.

The OECD secretariat has been working very hard to develop a different approach, which would enable both sides to take on board some of the lessons of the intervening period. The old-style Keynesians (not altogether unrepresented in the OECD itself) have to take on board that so-called "reflation," geared to output targets, has in the past proved the royal road to an inflationary explosion; and that simply setting a moderate growth path will not avert this danger, as we will not know what "moderate" is until it is too late.

The monetarists have to take on board the fact that their policy proved much more restrictive in both the U.S. and Britain than the monetary numbers suggested and stop taking an ostrich-like attitude to last year's unexpected falls in velocity.

The OECD's staff suggestion is that policymakers should set their aims in terms not of money itself, but money times velocity. This is identical with the money value of the national income or money GDP. An objective set out in these terms keeps in place the underlying monetarist aim—the refusal to finance inflation. But it does leave scope for a faster growth of output if inflation falls sufficiently.

The suggestion will not be new to readers of these columns and it has a highly respectable intellectual ancestry. What is new is that it has been seriously put forward by the secretariat of an international body; and a reference to objectives in terms of nominal (that is, money) GDP is in the draft communiqué it has prepared for the OECD meeting beginning in Paris today. It is touch and go whether Ministers will accept it in a non-watered-down form, despite the intensive studies carried out by the secretariat.

There are some difficulties of substance, for example, the insistence of the U.S. Treasury Under Secretary, Mr Beryl Sprinkel, that fiscal policy has no significance for nominal GDP. This can be skated over. More difficult is the sheer incomprehension of many politicians and businessmen in the face of an idea which has not already become a cliché.

In fact the idea would be easier to popularise than either old-style Keynesianism or technical monetarism, once leaders and opinion formers make the effort. The idea of a national "cash limit" or objective does make sense. So does the idea that the Government has a responsibility to keep total spending growing at a rate consistent with economic recovery; but that it should not step up this still further to accommodate faster inflation. The notion is not neutral between monetarism and Keynesianism. It is much nearer to "monetarism without mumbo jumbo."

Concentration on it would be a great deal better than last week's unfortunate meeting of the OECD's Economic Policy Committee, when the chairman of the U.S. Council of Economic Advisers, Prof Martin Feldstein, was fiercely attacked for his agnostic views on the correct value of the dollar by the OECD's senior adviser, Mr Stephen Marris. The latter was cheered on by most continental delegates, while the Germans and British indicated their middle-of-the-road position by an embarrassed silence.

A nominal GDP target has already been advocated both by Prof Feldstein and the OECD secretariat; and the one hope of defusing the exchange rate row is to concentrate on the appropriate growth of the U.S. national income, when the contribution of the state of the dollar to any overshoot or undershoot can be assessed. Is it too much to hope that the European representatives will seize the opportunity presented by the secretariat and make of this meeting a new beginning?

Letters to the Editor

Greater personal control and freedom of choice in pensions

From the Chairman, Martin Paterson Associates

Sir,—"Freedom in pensions" (Leader, May 4) justly exposes the principal weaknesses of most private pension schemes, namely in disregarding the full effect of inflation on benefits when the link with salary increases is broken on leaving employment or on retirement, and also in standards of disclosure of information. But in looking at alternative systems which give employees greater personal control and freedom of choice in respect of their retirement saving, it is worth remembering that the principal object of all pension provision is to provide an adequate income on retirement and that the test of this adequacy is normally measured by the standard of living reached at that time.

The proposals put forward by the Centre for Policy Studies do not go so far as to recommend that all employees should be allowed to opt out of existing schemes in favour of personal money purchase arrangements to which the employer contributes. The recommendations are restricted to early leavers. But the report does express the hope that all employers will be encouraged to move from final salary to money purchase arrangements. Thirty or more years ago money purchase schemes were quite prevalent and they were changed to career average or final salary schemes precisely because they failed to meet, for the majority of employees, the need for retirement income which bore a reasonable relationship to the pay it was intended to replace. And they failed this test in spite of levels of inflation well below 5 per cent.

It therefore seems somewhat ironic that the Conservative Government should now be contemplating, perhaps, accelerating a return to the point at which many pension schemes started, so that we all have an opportunity to re-experience the shortcomings of money purchase schemes, especially when they come about as a negative reaction rather than by good design.

Martin Paterson.
10 Buckingham Place, SW1.

From the Chairman, Company Pensions Information Centre

Sir,—The writer of the Leader of (May 4) claiming that representatives of the private pensions business have been slow to recognise the depth of feeling, seems to have been ignoring the contents of your correspondence columns in recent years. This topic has been featured on several occasions and many pensions practitioners have shared your concern but pointed out that any real improvement will have a real price tag attached to it.

The Occupational Pensions Board spent a considerable time investigating the problem and carefully considering the evidence submitted by a wide range of interested parties. It concluded that there were no easy answers.

At present younger employees may be costing their employer nothing if their own contributions are sufficient to buy all the pension they have earned so far. The legislation on preservation already requires, in certain circumstances, that if they leave they must be given a pension based on what their own contributions will buy if this is more than the pension based on their pay and completed service at the date of leaving. If you are to provide them with more than this where will the extra money come from?

Not every employer in the present difficult economic climate can afford to increase his overall expenditure on pensions.

If, on the other hand, you tackle the problem without increasing overall expenditure you can only do more for younger people by cutting back on the pensions of older people who are precisely those most worried about their pension. You talk of "reducing the subsidy to long service employees," but are you really advocating taking away the rights they have at present?

Where an employer cannot afford to spend a great deal on pensions for both younger and older employees, is it entirely surprising if older employees rank higher in his priorities than younger ones?

Lord Byers.
7, Old Park Lane, W1.

Cellular radio delay

From the Chairman, Mobile Radio Users' Association

Sir,—The MRUA is concerned at the serious delay in cellular radio development, when one recalls that the first proponent of cellular radio in the UK had declared a willingness to provide such a network in 1979.

The Department of Industry's Consultative Committee on Telecommunications (CCT) radio telephone working party—(RWP) reported as a matter of urgency in March 1982. MRUA was a member and supported the unanimous view that a minimum of 24 months would be required to develop and manufacture suitable equipment and to carry out the installation and commissioning of an operating system.

We have recently been informed that another British Telecom monopoly dominated committee had been formed—the joint radiophone technical interfaces group "JRTIG". The predictable result after 3 months, is that potential users and manufacturers have to write to a BT address in Ipswich sending £50 for a draft copy of a specification for comment.

The proposed specification is however still incomplete as parts are marked TBA — "To be agreed". No radio coverage maps showing even minimum data such as a predicted percentage of reliable grade of service or signal levels in micro volts/metre, with "in service" dates are available.

It is essential that a specification should be agreed and issued by the British Standards Institution forthwith and the equipment approved by the British Approval Board Telecommunications (BABT). The BSI committees have yet to be consulted.

A further delay of another three months is anticipated by BT. Even then no date for the radio coverage details is in prospect. How can British industry and users invest in a new innovative service against the same old background of slow moving committees and information blackout?

The decision was taken to adopt the AT&T's AMPS standard, AT&T's Bell laboratories have an excellent and well proven established record of co-operation with manufacturers on an international basis. UK and European manufacturers would have less misgivings over a Bell technical proposal, than any from an organisation which in fact spent many years supporting several rival cellular systems.

Users want to see the rapid development of cellular radio services and wish to see their present manufacturer suppliers producing similar equipment for the home and export markets including the vast U.S. market so as to have a UK supplier at the right price.

The formidable research and experience of Bell Laboratories would be a significant benefit to British manufacturers and could be readily available to all.

"Action this day" is required by the Department of Industry if cellular radio does not join that long list of expensive aborted projects. AT&T's operation is vital and has no substitute in BT and Home Office committees with a history of delay and procrastination.

W. K. Stevenson.
P.O. Box 15, London, SW1.

Electoral reform

From the Chairman, Electoral Reform Society

Sir,—In referring to the report by the Select Committee on Home Affairs on the Representation of the People Acts, your editorial (April 28) commented very sensibly and in balanced fashion on the matters raised. You noted that "details of electoral law matter ... to the point of affecting the election result."

If details matter then surely, even more so, must principles. For the principles on which our X-voting system is constructed have had the effect of ensuring that for nearly a quarter of a century the Government of this country has been placed in power by between 35 per cent and 45 per cent of those who voted. Conversely, this means that the Government's policies could, at any one time, be opposed by nearly two-thirds of the adult population.

In many constituencies the people have been represented by MPs elected by a sharp minority of those who actually cast their votes. The forthcoming general election will show us many more such examples.

In his report in connection with the Scottish and Welsh Assemblies, Lord Kilbrandon's commission unanimously recommended that they be elected by single transferable vote in multi-member constituencies. The Home Office agreed that this same system should be used in Northern Ireland for local authority and European parliamentary elections.

By extending this principle to include all of the UK, the real anomalies in our system of democracy would be removed.

G. E. N. Tinley.
6, Chancel Street, Blackfriars, SE1.

Apples and pears

From Mr J. Newman

Sir,—The directors of S. G. Warburg and Thomas Tilling have placed advertisements (May 3) comparing Thomas Tilling to a large apple and BTR to a small pear with the slogan "there is no comparison."

There is a comparison between apples and pears as they are both fruits of deciduous trees which are very similar in nature being edible and having stalks, skins, cores and pips. Indeed I am told that apple trees in pear orchards and pear trees in apple orchards are very effective ways of achieving cross-pollination and the setting of the respective fruits involved. Further, crosses between apples and pears have been achieved although the resultant fruit is not particularly tasty.

My wife advises me that the calorific value of both fruits is relatively similar and my taste buds tell me that a good William Pear is infinitely preferable to the rather nasty looking golden delicious (or is it perhaps an old cooker) that the Directors of S. G. Warburg have chosen to picture. Indeed in my copy of the Financial Times the apple is infected by a rather nasty rust which would certainly demand heavy chemical treatment or destruction of the apple itself.

The size of the fruits is also worth comment: are the areas covered by the pictures of the apple and the pear strictly or what? Or are we talking about the volume of the respective fruits? The only conclusion that one can come to is that the view of both companies by S. G. Warburg and Thomas Tilling is of fruits that should be eaten. Can we ask for the name of the third party predator?

John A. Newman.
11, Garrick Street, WC2.

Change of address

From the Managing Director, Schroder Unit Trust Managers

Sir,—I refer to the letter from Mr J. Hartshorn (April 30). There is an ideal solution to his problem—he should exchange his large number of small shareholdings for units in one of our unit trusts. Then, instead of receiving scores of reports etc, via his old address, he would simply receive two each year, albeit also sent probably to his old address!

I. G. Sampson.
48, St Martin's Lane, WC2.

FINANCIAL TIMES

Monday May 9 1983

SPANISH PLAN FOR $10BN NATURAL GAS LINK WITH EUROPE

U.S. supports African pipeline study

BY PAUL BETTS IN PARIS

THE U.S. gave its support yesterday to studying the feasibility of building a $10bn pipeline to transport natural gas from Nigeria and Algeria to Spain and other West European countries.

The ambitious proposal was made by Spain at the ministerial meeting of the International Energy Agency (IEA) in Paris yesterday.

The IEA meeting appeared to be turning out yesterday into a diplomatic success, with Mr Nigel Lawson, UK Energy Secretary, welcoming the consensus reached by Western energy-importing countries on natural gas imports, reached last Friday.

Referring to his visit to the Gulf earlier this week, he claimed relations between the oil producers and oil importing countries had made considerable progress. "There is much greater identity of views than ever before and a better understanding of each other's position," he said. Mr Lawson forecast stability in oil prices for the rest of the year. He said some oil producers expect demand to grow in the final quarter of this year because of the U.S. recovery and traditional winter seasonal factors. But he said he personally felt the stability in oil prices would be maintained for the rest of this year.

Although he did not see formal contacts between the IEA, representing the energy importing countries, and Opec as a viable proposition, he did encourage greater bilateral relations between individual oil producers and individual oil importing nations. This proposal appears to have already won the approval of a number of IEA countries including among other Japan and Canada.

Mr Lawson also said that Opec was now showing a greater amount of discipline than ever before. Asked if he had heard during his Middle East tour that Iran planned to offer some Japanese companies a $2 discount he said he understood the Japanese contracts were still under negotiation.

On the ambitious pipeline proposal, Sr Carlos Solchaga, the Spanish Foreign Minister, held conversations at the weekend in Paris with Mr Donald Hodel, the U.S. Energy Secretary, and French energy officials before formally tabling the proposal at the meeting.

The pipeline would run from Nigeria to Morocco and Algeria and then cross the Straits of Gibraltar to Spain. A Spanish official said yesterday that the project appeared technically feasible as well as economically attractive in the longer term, giving direct access to Europe for West African gas.

He said both Nigeria and Algeria were interested in the project because it was a less expensive way to transport gas than the cost of liquefaction and regasification.

The Spanish proposal is also likely to be included in the IEA's final communique. A U.S. official said the United States had found the proposal constructive to the energy issue adding "The U.S. will support it."

The feasibility study of the pipeline is now expected to be taken up by the IEA. But the Spanish official emphasised that a project of this scale would inevitably be a matter of multinational financing.

Spanish sources claim France would have preferred the project not to be put forward at the IEA, an organisation of which France is not a member, although it is part of the Organisation for Economic Co-operation and Development (OECD), the IEA's larger sister agency.

Spain is also understood to have contacted West Germany in advance about the pipeline proposal.

Spain appears to have been in part pressed by Algeria to propose the project at the IEA. Algeria is clearly banking on the project to stimulate its economy. At the same time Spain is currently renegotiating its gas contract with Algeria which King Juan Carlos is due to visit today. The U.S. could have used the Spanish proposal as a vehicle to stir up the debate at the IEA and revive its objections against the Siberian gas pipeline. But the U.S. has adopted a conciliatory approach to the energy issue at the IEA.

For the U.S. an eventual project of this scale would be a source of important oil services and technological exports and, as one western diplomat remarked, an opportunity to catch up for the exports the U.S. lost to the Europeans on the Siberian venture.

The U.S. which earlier had accepted that the IEA should drop a recommendation that no country rely on one single oil or gas producer for more than 30 per cent of its annual energy needs, received support yesterday from Count Otto Lambsdorff, the West German Economic Minister.

Count Lambsdorff said the present relaxed energy supply situation should prompt IEA countries to look at longer term developments in the energy supply situation. "We therefore welcome the American suggestion to examine the supply security of OECD countries for all sources of energy in order to identify possible weaknesses in energy supply," he said.

The American suggestion is understood to have been made as a compromise for dropping the politically sensitive 30 per cent ceiling on energy supplies from one single source.

Count Lambsdorff said the IEA energy requirement and security study showed that supply security was not in danger at present. But he said the study points to the continuing political risk, especially in the oil sector. "In the medium and long term, however, oil supply disruption may reach a critical stage," the West German Minister said.

Dr Ulf Lantzke, the IEA's Executive Director, said the IEA was now estimating that oil consumption would continue to fall slightly this year between one to two per cent or at a rate which should slow in coming months.

"With a pick up in economic activity, I would expect a slight increase in oil consumption in the second half of 1983 compared with the same period last year," he said.

THE LEX COLUMN

A monopoly game without rules

The past week has resoundingly confirmed what many people in the City of London have for long suspected. UK competition policy is a complete shambles. Industry and the financial community are at present obliged to endure a decision-making process which in neither overtly political nor overtly subject to proper statutory authority. The result is the worst of both worlds.

The existing paraphernalia for determining whether mergers and acquisitions are in the public interest has generally coped well with straightforward competitive issues. The Monopolies and Mergers Commission is still a force to be reckoned with when it comes, for example, to determining what is acceptable concentration in the domestic roof tile market. Last week's report on the twin references in the textile maintenance industry was a model of its kind, soundly argued and well researched.

But as soon as the Commission steps into the murky waters of national economic policy, its conclusions and its arguments are apt to become confused. There are differences of opinion about the decisions taken in the cases of Enserch/Davy, the Royal Bank of Scotland or Lonrho/House of Fraser, but virtual unanimity that, even if the decisions were correct, the reasoning behind them was faulty.

Given the existing haziness, it is disturbing to see the Secretary of State for Trade then running in like a Wimbledon referee in a blue blazer and announcing to an already nervous umpire that the ball just given out on match point was in by a yard.

This, however, has been an unfortunately common occurence in recent takeovers. Besides overturning the Monopolies Commission judgment on Charter Consolidated/Anderson Strathclyde (a decision which had some justification because of the split within the commission itself), the present Secretary of State, Lord Cockfield, has annulled three recommendations by the Office of Fair Trading (OFT). The most recent, and most spectacular, was last week's decision to ignore the OFT's advice and refer the Sotheby's affair to the commission.

Recommendation

To overturn a recommendation by the OFT may not have quite the force of a disagreement with the Monopolies Commission. But, while a recommendation itself may not prejudge the issue, it can very well help to determine the eventual outcome of a bid, presuming that the commission gives it a green light.

Companies – and their financial advisers – have become increasingly adept at arranging defensive ploys to thwart a bidder whose offer is on ice. Diversionary acquisitions, hurried disposals, public flotations of subsidiary companies are all weapons entering the armoury of the entrenched defender.

Very often, such ploys fail to have the required effect, as the eventual takeover of British Sugar by S. & W. Berisford demonstrated. Sometimes, the management of the target company may use the limbo period to trade its own way out of reach of the bidder.

Either way, however, a referral decision is likely to be of great significance. The odds on Tilling's being taken over by BTR – at least on the present terms – must have shortened considerably after last week's green light.

Uncertainty

Direct involvement by politicians not only creates disruptive uncertainty but undermines the authority of those agencies which have been established to consider monopoly questions. The commission, which in the past has sometimes found it difficult to attract people of very high calibre to what is often a thankless task, would find it impossible if its jurisdiction were seriously in question.

So, in order to justify his actions, the Secretary of State must presumably have excellent grounds. It is possible that he may disagree with the OFT on the solid territory of competition. But there is no competitive issue at stake with Sotheby's; nor was there in the case if Illingworth Morris, again referred by the Secretary himself against the advice of the OFT.

Equally, the Secretary of State may argue that the verdicts of the OFT or the Commission are inconsistent with past precedent. Yet there is no obvious precedent for the Sotheby's affair and, in the other, much more important ruling of the week, the BTR bid for Tilling was waved through despite a strong indication in an earlier Monopolies Commission report on BTR that further large acquisitions would bear examination.

Perhaps, then, the Government does have a policy on takeovers. The BTR/Tilling decision is consistent with the more lenient attitude perceived recently on conglomerate mergers. Similarly, the readiness to examine a bid for a British institution such as Sotheby's from a foreign company is consonant with the thumbs-down given to Enserch's proposed bid for Davy and to the rival suitors' offer for Royal Bank of Scotland.

If, however, the Government does have a formulated policy, there seems no reason to keep everyone outside the corridors of Westminster in the dark about it. Much the most satisfactory solution would be for a government entering office immediately to lay down guidelines on competition policy.

A government would, of course, find it easier to prescribe such guidelines if it were equipped with a more satisfactory piece of legislation to interpret than the Fair Trading Act of 1973. It is not possible to lay down strict rules on what is and is not acceptable in an area as shady as mergers and acquisitions. Having said that, however, the present legislation is not only out of date, but so loosely framed that too broad a measure of discretion is granted to its executors.

Legislation

An overhaul of the existing act is likely to work in everyone's best interests. But, in order to operate effectively, the legislation must also be seen to be applied consistently on a daily basis. At present, the OFT and the Secretary of State can suspend or sustain a bid with no explanation for their actions. Apart from introducing a welcome element of accountability, an addendum to each decision explaining why a particular issue was or was not thought to be worthy of consideration would help to elucidate the policy.

For the Government to believe that the erection of a ring-fence around New Bond Street is an idea which should be seriously discussed may not be very logical, but is at least an argument. For the Government to refer the Sotheby's bid on the vague ground of widespread public concern is plainly neither.

The Government might, of course, prefer completely to dismantle its existing machinery and take judgments on takeovers directly under its own wing, much as the French Government has. That is a very unappetising idea, but it is hard to think of any recipe less satisfactory than the present goulash.

Concern over record car imports into UK

By Kenneth Gooding in London

RECORD IMPORTS of cars are being sucked into the UK as sales race towards new peaks. The impact on the balance of payments seems likely to cause the Government concern.

In the first four months of this year, 364,252 imported cars were registered. The previous record was in 1980 when 355,311 were sold in the January-April period.

One of the main factors contributing to the current boom in car sales was the abolition last summer of hire-purchase controls. Although the industry, via the Society of Motor Manufacturers and Traders (SMMT) had pressed for such action, some observers at the time warned the Department of Industry that the British car plants might not be able to cope with the extra demand.

However, the society, in a campaign vigorously led by its president, Mr George Turnbull, chairman of Talbot UK, wants the Government to spur demand even further by eliminating the 10 per cent special car tax.

Mr Turnbull argues that Britain needs a 2m-a-year new car market (the record so far is 1.71m) to provide the right environment to encourage further investment in the UK by the multinational manufacturers such as his own parent group, Peugeot-Citroën-Talbot

However, others in the industry, including the influential figure of Mr Sam Toy, chairman of Ford of Britain, continue to suggest that very little more production can be squeezed out of the UK's car plants and that any major surge in demand would be mainly satisfied by imports.

Although imports represented a bigger percentage of the market last year, 57.99 against 56.73 per cent in the first four months of the year, the volume was lower at 319,414.

At a conservative £3,000 ($4,710) each, the extra 44,800 cars would have added £134m to Britain's automotive import bill. Britain's balance of payments in motor products was in the red for only the second time last year – by £973m.

SMMT statistics at the weekend showed new car sales continuing to point to a record year in 1983. Registrations for the first four months at 642,118 were 16.6 per cent up on the 550,796 for the corresponding months of 1982. That compares with the previous highest January-April sales of 637,888 in 1979, when registrations went on to a record 1.71m for the full year.

Walesa under police scrutiny as Solidarity members detained

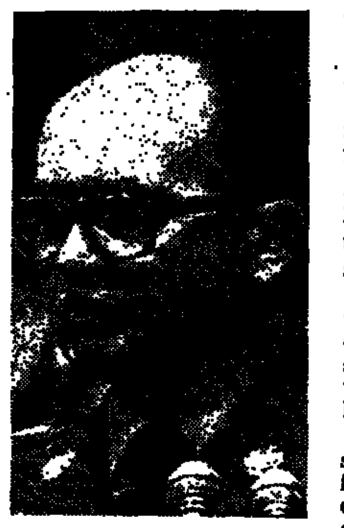
BY CHRISTOPHER BOBINSKI IN WARSAW

THE POLISH police detained at least nine Solidarity supporters at the weekend. Mr Lech Walesa, the leader of the banned movement, was put under close police observation after a meeting in Warsaw on Friday.

The moves came against a background of official unease after a critical article published last week in the New Times, a Soviet weekly, which was taken here as a warning by Moscow to General Wojciech Jaruzelski's Government.

The detentions came after Mr Walesa had met members of other banned unions, apparently to prepare a protest to Parliament calling for their reinstatement and an amnesty for political prisoners.

In an emotional sermon in Krakow yesterday, the Polish Primate called on the authorities to heed the voice of the population in the interests of internal peace.



General Wojciech Jaruzelski

Official sources are taking most seriously the implications of the New Times article, which could well be discussed at a Politburo meeting tomorrow. The article attacks the Polityka newspaper until recently edited by Mr Mieczyslaw Rakowski, who is a deputy premier and a close associate of General Jaruzelski.

Polityka is criticised for revisionism by New Times. The article is seen here as a warning by Moscow that General Jaruzelski's cautious reform policies, underpinned by represion towards Solidarity activists which finds him no favour among the population, go far beyond East European orthodoxy and should be curtailed.

The New Times article was published just before the founding congress at the weekend of the Patriotic Movement for National Rebirth (Pron), which is also seen by Poland's hard-line neighbours as suspiciously reformist.

The Politburo meeting tomorrow was to have fixed the date for a Communist Party central committee meeting devoted to ideology, which was expected in mid-May. It has been seen as providing an ideal forum for hard-line attacks on the present leadership.

Some now speculate that the Politburo will change the subject of the meeting and postpone it until later in the month to avoid a full-scale clash with the hard-liners.

The Pron congress meeting over the weekend has for the first time officially broached the important issue of how national and local elections, due early next year, are to be handled.

Both the programme and the speakers at the congress spoke in favour of limited changes in the election laws, providing a measure of choice among candidates for local and national assemblies.

Even such cautious change meets with the deepest suspicion in Prague or East Berlin, as does the quite prominent role played by Roman Catholics in the Pron movement, which claims about 500,000 supporters.

Speeches at the congress reveal that the movement is to a considerable extent composed of people ready to back General Jaruzelski's declaration, in a speech to the congress: "We want above all to overcome our many difficulties through extensive democratic reforms."

Standard Oil to sell Amoco Italia

By Rupert Cornwell in Rome

STANDARD OIL of Indiana, the American oil group, is understood to have agreed to sell Amoco Italia, its subsidiary in Italy, to two Saudi Arabian-controlled companies.

The agreement is due, on present plans, to be ratified in Milan tomorrow.

Although the value of the sale has not yet been disclosed, it will break important new ground for Italy. It is the first time that Arab interests have bought directly into the domestic oil industry.

The two buyers are First Arabian Corporation and Arabian Sea Oil. They have acted through the intermediary of the Commonwealth Bank of Detroit, controlled since 1977 by First Arabian Corporation.

Standard Indiana had been threatening to close down its Italian operations by next year if it could not find a buyer.

The deal means that Amoco Italia's refinery at Cremona, some 60 miles south-east of Milan, and its 1,100 retail outlets throughout the country will remain in operation. Amoco Italiana's name will change to Tam Oil.

The future of the refinery was a particularly delicate issue. Although it has a capacity of only about some 5m tonnes, equivalent to about 6 per cent of the total Italian market, its pipeline network is linked to four oil-fired refineries within Italy's national electricity grid.

Amoco's decision to withdraw from Italy is a reflection of the difficult conditions under which oil refiners and distributors, both national and foreign, are operating, against a background of strict price controls.

Thatcher still guarded on date for poll

Continued from Page 1

This was taken by some observers as indicating a later date in June, though many party officials favour a short campaign with polling on June 9.

Mrs Thatcher is under strong pressure from close advisers and Tory MPs to make an early statement.

The main party advice is that the election should be in June since last Thursday's UK local government elections indicated a comfortable Tory majority in the House of Commons, while the inflation and unemployment statistics should also be more favourable next month than in the autumn.

Mr Michael Foot, the Labour leader, strongly attacked Mrs Thatcher yesterday. Speaking at a trade union conference at Bournemouth, he warned of "social explosions" if Mrs Thatcher won a second term.

Labour faces struggle to build election fund

BY JOHN LLOYD, LABOUR EDITOR

LABOUR PARTY and trade union leaders in Britain, buoyed by their successful weekend conference on general election campaign tactics, still face formidable financial and organisational problems in translating their optimism into an effective challenge to the Conservatives.

Although the unions have pledged that they will find the money to build up Labour's campaign fund to £2.5m, ($3.9m) there can be no certainty that it will be forthcoming in time.

- Only £638,000 is already in – and much of that is earmarked for expenditure. A poster campaign will cost £250,000, aid to marginal seats £100,000, the leader's tour £50,000 and opinion polls £43,000.
- A further £900,000 to £1.2m has been promised by union leaders but those promises still have to be ratified by their executives. Some, like Mr David Basnett, chairman of Trade Unions for Labour Victory (TULV), and general secretary of the General Municipal and Boilermakers' Union, can be certain of delivery. Others cannot – although there is now enormous pressure on unions to do so.
- The remaining £700,000 or more is something of a problem. While the unions affiliated to the TULV could scrape it together, only the mineworkers – who are not affiliated – are wealthy enough to donate most of it without strain. Mr Michael Foot, the Labour leader, is expected to meet Mr Arthur Scargill, the mineworkers' president, soon for a talk about money.

The general fund which the party needs for its own day-to-day running is still badly in debt, although economies have cut the overdraft back from £525,000 at the end of 1982 to £203,000 now. However, unions are paying their affiliation fees much more slowly than usual.

Mr Michael Foot

Mr Eric Varley, Labour's employment spokesman and Party treasurer, told the unions at the weekend that there was an accumulated shortfall of £291,554 on affiliation fees. This may remain if unions are strained in funding the campaign.

The party's analysis of last week's local election results in the UK confirms optimism that the gap between Labour and the Tories is closing. Strategists are concerned, however, about a possible collapse of the Liberal/Social-Democratic Alliance vote. In some Midland and London seats, Labour needs a respectable Alliance vote to balance a high Tory vote so that it can come through the middle and win.

- Only 43 per cent of trade unionists intend to vote Labour at the next general election, with 33 per cent supporting the Conservatives and 25 per cent the Liberal/SDP Alliance according to a MORI poll conducted for last night's Channel Four independent television.

Socialists gain in Spanish local elections

By David White in Madrid

THE expected advance by Spain's ruling Socialist Party in yesterday's municipal elections was confirmed in initial results from the major population centres.

The Socialists held on to their absolute majority in Madrid and Valencia and gained other towns, including Seville and Saragossa.

However, the early results showed them trailing in Bilbao behind the Basque Nationalist Party, which won control of the town hall in the last election four years ago.

In Barcelona the Socialists reinforced their leading position but failed to reach an absolute majority of councillors. This was expected to oblige them to form a new coalition with the Communists.

The Communist Party, which suffered a major setback in general elections last October, pulled off a surprise by scoring an absolute majority in Cordoba, the only provincial capital where they have had until now a mayor.

However, the Socialists ousted the Communists in Badelona, a large industrial centre in Catalonia.

The polls appeared to mark a polarisation between the Socialists and the main rigth-wing opposition coalition headed by Alianza Popular. The latter won in Burgos and Cunca, according to the initial results.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	C	19	66	Dubrovnik	F	21	70	Malaga	S	27	81	Salzburg	F	15	59
Akrotiri	S	22	72	Faro	S	24	75	Malta	S	21	70	Seoul	S	19	66
Algiers	S	26	79	Florence	C	21	70	Manila	S	36	97	Singapore	F	33	91
Amsterdam	F	13	55	Frankfurt	F	15	59	Miami	S	23	73	Stockholm	S	16	61
Athens	S	20	68	Funchal	S	19	66	Milan	R	16	61	Strasbourg	F	15	59
Bahrain	S	35	95	Geneva	F	14	57	Moscow	C	15	59	Sydney	S	24	75
Bangkok	R	29	84	Gibraltar	F	22	72	Munich	R	12	54	Taipei	S	28	82
Barcelona	C	17	63	Guernsey	F	11	52	Nairobi	C	22	72	Tangier	C	20	68
Beirut	S	25	77	Helsinki	S	15	59	Naples	F	22	72	Tehran	—	—	—
Belgrade	R	15	59	H. Kong	F	27	81	New Delhi	S	37	99	Tel Aviv	S	24	75
Berlin	R	11	52	Innsbruck	R	12	54	New York	S	13	55	Tenerife	C	21	70
Biarritz	C	14	57	Inverness	C	9	48	Nice	C	18	64	Tokyo	F	24	75
Blackpool	C	10	50	Istanbul	S	16	61	Oporto	C	14	57	Toronto	R	4	39
Bordeaux	C	13	55	Jersey	C	12	54	Oslo	F	16	61	Tunis	S	22	72
Brussels	R	13	55	Jo'burg	F	20	68	Paris	C	14	57	Valencia	S	22	72
Budapest	R	13	55	Las Palmas	C	21	70	Prague	R	11	52	Venice	R	16	61
B. Aires	S	21	68	Lima	S	28	82	Reykjavik	R	6	43	Vienna	R	9	48
Cairo	S	28	82	Lisbon	S	17	63	Rio de J'o	C	33	91	Warsaw	F	15	59
Cape Town	S	23	73	Locarno	R	13	55	Rome	S	20	68	Zurich	C	10	50
Caracas	C	26	79	London	C	14	57								
Casablanca	C	19	66	Los Angeles	S	13	55								
Copenhagen	F	13	55	Luxembourg	C	10	50								
Corfu	F	21	70	Madrid	F	19	66								
Dublin	C	13	55	Majorca	C	20	68								

Readings at mid-day yesterday:

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

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SECTION II – COMPANIES AND MARKETS

FINANCIAL TIMES

Monday May 9 1983

Brazil's creditor banks meet for more negotiations

BY PETER MONTAGNON IN LONDON

ADJUSTMENTS to Brazil's multi-billion dollar debt rescue plan seemed to be drawing inexorably closer at the weekend as leading creditor banks prepared for another round of talks today in New York.

The meeting of 18 banks, organised by Morgan Guaranty and Citibank, takes place against a background of continuing extreme liquidity in April and a fall in net foreign payments arrears over the past 10 days.

It will again address the most serious setback to the debt rescue package, namely Brazil's failure to persuade the international banking community, to restore interbank lines to branches of Brazilian banks abroad. Almost no progress has been made in this respect, although leading creditor banks decided three weeks ago to make an all-out effort to raise the lines by $1.5bn to a minimum of $7.5bn.

Although it is by no means certain that any decisions will be reached at today's meeting, serious thought is now being given to alternative methods of raising that extra liquidity. Banks that still fall short on their interbank lines to Brazil may be invited to contribute short-term pre-export finance, or direct advances to the Brazilian central bank instead.

There is no doubt that Brazil's improving trade performance, coupled with the reduction of arrears, has increased sympathy for its plight in the banking community. The net arrears have fallen by some $400m to between $500m and $600m over the past week or so, largely as a result of disbursements on a loan contracted last year by the Tubarao steel company.

But it is now recognised that the opposition of many banks – Swiss, German and French as well as some Middle Eastern and U.S. regional banks – to increasing interbank lines has an almost religious quality. Those banks might agree to an alternative approach, but the question that then arises is whether that will not upset institutions that have swallowed their pride and come up with interbank commitments.

Elsewhere, Argentina has almost completed payments of interest arrears due from March and should begin April payments within a week. Completion of its rescheduling arrangements depends on bringing interest up to date, but although the amount currently needed is less than $300m, Argentine officials say that some juggling will be required to foot the bill.

They want to use disbursement of the last $300m tranche of the $1.1bn bridging loan granted by commercial banks earlier this year to make good interest to commercial banks. This will allow completion of the $1.5bn term loan now being negotiated with the same bank creditors.

It remains to be seen whether bank creditors will agree to such an arrangement, which in any case depends on Argentina's getting a clean bill of health from the IMF once inspection of its books is completed at the end of this month.

Little progress appears to have been made yet with Venezuela's rescheduling plans. Here again, banks are insisting on interest being made current. Creditor banks are also insisting on a conditional programme with the IMF. Sr Carlos Caceres, Chile's Finance Minister, is to meet banks in London today to discuss the country's $3.4bn rescheduling proposal.

The Eurocredit market remained quiet last week, with Spain still undecided on terms for its planned $500m credit. Strong demand is reported for two Arab deals in the market. The loan for Algeria's Sonatrach has been increased to $600m from $500m, and Oman's $300m loan is already fully subscribed.

INTERNATIONAL BONDS

Question mark over ICI deal

BY MARY ANN SIEGHART IN LONDON

IT TOOK most of the Eurodollar bond market a day or two to work out what Tuesday's ICI deal actually meant. A week later people are still pondering whether it is good value.

The $100m, seven-year bond led by Goldman Sachs and Morgan Grenfell, carries a 9¾ per cent coupon at an official issue price of 123. In fact, the extra 23 covers the price of the warrants – five with each $5000 bond, each of which can buy 117 ICI shares at 540p.

The dollar bond can be converted to a Eurosterling bond with the same terms at any time in the next seven years at a fixed exchange rate of $1.5775 to £1.

From ICI's point of view this looks an excellent deal. Taking the money received for the warrants into account and subtracting the $2.25m to managers, the company raised $100m–$120.75m at 9¾ per cent and $20.75m at no interest – for an all-in cost of less than eight per cent. Even without the warrants ICI has saved nearly a point on the dollar bond and even more – probably about 1¾ points – on the sterling conversion. The effect on the company's gearing, says a spokesman, will be "negligible."

So much for ICI – does the investor get such a good deal? Most of the buying interest so far seems to have centred on the stripped bonds. Looking at the total cost of exercising the warrants, this does not come as much of a surprise.

Over the week, the pre-market price of the bond cum-warrants fell from 123 to close on Friday at around 119. The ex-warrant price was around 98¼. This means that, even with the price fall, the implied cost of the warrants was $207.5 each ($1190–$982.5). Once the investor has paid this amount, exercising the warrant will cost a further further $998.24 – the cost of 117 ICI shares at the exercise price of 540p, converted into dollars at $1.58 = £1.

So the all-in cost is $207.50 + $998.50 = $1205.74. Compared with this, the value on Friday of 117 ICI shares was only $831.87. The premium works out as just under 45 per cent of the share price. This premium is steep compared with other current warrant issues, the normal premium level is between 30–35 per cent.

The warrants may be expensive, but what about the stripped bonds? At a price of 100, these yielded 9.75 per cent – just under 100 basis points less than the yield necessary for a bond without the currency conversion option. By Friday the prices was around 98¼, which gives a yield of 10.11 per cent. The investor, therefore, is sacrificing about 60 basis points for the option of converting into a sterling bond.

Whether this is good value is more difficult to tell. There is no comparable seven-year futures contract, so evaluation is more a matter of assessing the probablities of a strong enough pound and low enough sterling interest rates.

At the moment ICI would probably have to pay about 11½ per cent on a straight sterling bond, so interest rates would have to fall quite a bit to make a 9¾ per cent sterling bond good value. Alternatively, or preferably additionally, the pound would have to strengthen to around $1.70 for the investor to break even.

The ICI deal was one of four equity-linked issues in the Eurodollar sector this week. The proportion of convertibles and bonds with equity warrants is still high for the third week running.

The launch of Long Term Credit Bank's $100m issue on Friday added to the still large proportion of bank issues. Also out on Friday were bonds from Electrolux, Escom and Honda.

WORLD BANK

Cautious borrowing encounters criticism

BY WILLIAM HALL IN NEW YORK

LAST THURSDAY, the World Bank's executive board agreed to borrow an extra $1bn on the World's Capital Markets, bringing its total borrowing in its current financial year to $10.8bn. But if some people had their way this should be $20bn or $30bn.

It is a strange irony that an institution which lends much of its money to countries facing severe financial difficulties has an investment following in the world's financial community which is second to none. In the U.S. it is paying a mere 15 basis points more than the U.S. Treasury for its short-term money and there seems an insatiable appetite for its triple-A-rated paper.

This has not passed unnoticed, especially in the developing world, and there is a growing feeling that the World Bank should exploit its borrowing powers so that it can increase its lending to the countries that need the money and are presently being given short shrift by the commercial banks.

One of the main reasons why the World Bank paper has such a keen following results from the Bank's conservative financial management. Its upper limit for lending is the equivalent of its total capital and reserves.

Some of the executive directors at the World Bank argue that that gearing ratio is too conservative and could be increased without damaging the agency's rating in the world financial markets.

While there is no legal obligation for the World Bank to observe a gearing ratio of one to one, it has given an undertaking in its prospectus that this is the sort of ratio it observes and the bank's management is anxious to preserve it.

CURRENT INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead Manager	Offer yield %
U.S. DOLLARS							
Mitsubishi Electric §‡	100	1998	15	5¼	100	Daiwa Europe	5.250
Yankee Oil and Gas §‡	15	1998	15	7½	100	Morgan Grenfell	7.500
Oest. Laenderbank †‡	50	1994	11	5¼ ɸ	100	CSFB, SG Warburg	–
ICI ¶‡	100	1990	7	9¾	100	Goldman Sachs, Mgn. Grenfell, Deutsche Bank, SG Warburg	9.750
Ontario Hydro ‡	250	1990	7	10¼	100	Deutsche Bank	10.250
Weyerhaeuser Cap. ‡	50	1990	7	10½	100	Morgan Stanley	10.500
Manufrs. Hanover ‡	50	1988	5	10¼	100	Manufrs. Hanover	10.250
Manufrs. Hanover ‡	100	1990	7	10¼	100	Manufrs. Hanover	10.250
Credit Foncier de France ¶‡	150	1991	8	10⅞	101	BNP, Deutsche Bk., Salomon Bros., CSF	10.665
SBC Ovs. ¶‡	100	1993	10	6¼	100	SBCI	6.250
LTCB ‡	100	1990	7	10¾	100	CSFB	10.750
Escom ‡	75	1988	5	11½	99½	Commerzbank	11.657
Electrolux ‡	50	1990	7	10½	100	Enskilda Secs, SBCI	10.500
Export Devt. Corp. †‡	200	1988	5	9⅞	99⅝	Salomon Bros.	9.974
Nova Scotia Prov. †‡	150	2013	30	11½	100	Merrill Lynch, Sal. Bros., First Boston	11.500
World Bank ††‡	200	1988	5	10	100	Goldman Sachs	10.000
World Bank ††‡	200	1993	10	10⅜	99½	Goldman Sachs	10.458
Secom §	40	1998	15	*	100	Nomura Intl.	5.500
Honda Motor §	100	1998	15	*	100	Nikko Secs., Nomura Intl.	5.250
D-MARKS							
Finland ‡	150	1988	5	7½	99¾	Deutsche Bank	7.562
Kobe City ‡	120	1993	10	7	99½	Deutsche Bank	7.071
SDR (France) ‡	100	1993	7	7⅞	100	BHF-Bank	7.875

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead Manager	Offer yield %
SWISS FRANCS							
Tsumura Juntendo **§	50	1988	–	3⅛	100	SBC	*
Sumitomo Metal ‡	100	1991	–	6	100	SBC	6.000
Tanabe Seiyaku **§	50	1988	–	3⅛	100	UBS	*
Toei Co. **‡	20	1988	–	6	100	UBS	6.000
Export Devt. Corp. ‡	100	1991	–	5⅜	100	SBC	5.375
Postmaster Gen. S.A. **‡	50	1988	–	6⅜	100	SBC	6.375
Europistas Concessionaria **‡	45	1988	–	7	100	Bank Leu	7.000
Shin-Kobe Electric **‡	25	1988	–	6	99¾	Bank Leu	6.052
San-ai Oil Co. **	20	1988	–	*	*	CS	6.125
STERLING							
Finance For Industry ‡	40	1990	6½	10½	95½	SG Warburg	11.470
GUILDERS							
EEC ‡	200	1993	10	8¾	99	ABN, Amro Bank	8.885
AUSTRIAN SCHILLINGS							
EIB ‡	500	1993	10	8¼	100¼	Creditanst. Bkv., Girozentrale, Oest. Laenderbk.	8.212
ECUs							
Forsmarks Kraftgrupp ‡	40	1998	15	11½	100¼	Kredietbank Intl., BBL, Soc. Gen. de Bque.	11.464

* Not yet priced. ‡ Final terms. ** Placement. † Floating rate note. ɸ Minimum. § Convertible. ¶ With warrants. †† Registered with U.S. Securities and Exchange Commission. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

U.S. BONDS

Rally stalls after unexpected rise in money supply

THE U.S. credit markets absorbed a record $15bn in new Treasury debt and $2.7bn in new corporate issues last week but ended on a slightly sour note after the Federal Reserve Board announced an unexpected $1.4bn rise in M1.

The rally was based on expectations of a continuing decline in the money supply but when the M1 figure was announced late on Friday the market stumbled. The long bond, having traded up to over 101 in midweek, its highest level since last autumn, closed at 100½ to yield 10.47 per cent.

Although the Fed funds rate stayed stubbornly high for most of the week other short-term rates edged down. The tone of trading earlier in the week reflected a belief that favourable money supply numbers might allow the Fed to cut the discount rate from its current 8.5 per cent. Some Wall Street economists suggested such a move could even come by the end of the month—ahead of the Williamsburg summit.

U.S. INTEREST RATES (%)

	Week to May 6	Week to April 29
Fed funds wkly aver	8.80	8.58
3-month T-bills	8.06	8.00
3-month CDs	8.30	8.35
30-year Treas bond	10.47	10.54
AAA Utility	11.12	11.40
AA Industrial	10.75	11.00

Source: Salomon Bros. (estimates). In the week ended April 27 M1 rose by $1.4bn to $495.4bn.

This view was reflected in much stronger than expected demand for the Treasury's refunding package and gained momentum when the funds rate dropped to 8.25 per cent on Friday morning.

The record three-part quarterly refunding package was auctioned at new cyclical low yields. Demand was particularly strong for the shorter maturities.

The M1 announcement on Friday injected a distinct note of caution into the market, although it is now only $5bn above its target range—a considerable improvement on the figures of a month ago. At the same time the expectation is that M2 and M3, the broader monthly money measures which will be announced on Friday grew little if at all in April, leaving M2 below target and M3 well within the Fed's target range and enabling the Fed to justify an easing.

But as Dr Henry Kaufman, Salomon Brothers' chief economist pointed out, the Fed does now have a problem in deciding whether or not to cut the discount rate. "From the Fed's perspective," he said, "it may be desirable to wait another few weeks to see continued moderate growth in the aggregates."

Meanwhile, Mr Thomas Lawler of Chase Manhattan Bank warned that the optimism of last week suggested that the markets are vulnerable to any emerging negative news such as the chance of a renewed surge in the money supply, further evidence of a more than moderate economic recovery, or the speed with which the corporate sector appears ready to jump into a strong market.

The final factor was shown last week by the flood of new corporate issues. On Thursday alone over $1bn of issues were brought to the market including $550m of 30-year corporate bonds priced at extremely narrow spreads over the Treasury issues they compete with.

Tenneco launched $200m of 30-year debentures priced to yield 11.227 per cent and Standard Oil of Ohio launched $150m of 30-year 10⅞ per cent debentures priced at par. Dayton Hudson, Sears Roebuck, Federated Department Stores, and American Express Credit all launched 30-year issues in packages of $100m.

Manufacturers Hanover Trust returned to the market with a $100m issue of three-year notes, American Brands launched $150m of four-year notes, Pan Am doubled the size of its 20-year issue to $100m carrying a 13.5 per cent coupon and Diamond Shamrock Corporation launched a $150m issue of 30-year notes and a $100m issue of 10-year notes.

Paul Tayor

SA newspaper group hit by steep rise in costs

BY BERNARD SIMON IN JOHANNESBURG

ARGUS Printing and Publishing South Africa's largest newspaper group, suffered a 40 per cent decline in trading profit in the year ended February, despite higher advertising and circulation revenues.

Trading income fell to R17.5m ($16.2m) from R28.7m. A sharp drop in tax payments, however, held attributable earnings at R13.8m against R14.8m a year earlier. An unchanged final dividend of 200 cents is declared, bringing the total for the year to 300 cents.

Mr Layton Slater, the chairman, said that profits were dented by steep increases in raw material costs, as well as a higher wage bill. Financing charges rose sharply, as a result of higher interest rates and a 50 per cent jump in borrowings to R61.8m.

The directors warned that business conditions may deteriorate further this year, but said that results in the past few months were "reasonably satisfactory."

Argus publishes 14 newspapers including the Johannesburg Star, South Africa's largest daily paper. It has a significant stake in a number of successful local weeklies and free sheets.

The company is actively diversifying into areas like TV production. Its bookseller chain, CNA, is in the process of being merged with Gallo, a record company controlled by Premier group.

Mitsubishi Trust and Banking's £50m CD

By Mary Ann Sieghart

MITSUBISHI Trust and Banking Corporation has launched the first-ever fixed-rate certificate of deposit (CD) for a Japanese trust bank. Led by County Bank, the $50m issue is made up of two $25m tranches.

The five-year CD will pay 10⅜ per cent and is priced at par. $25m will be issued initially, with another $25m before the end of this year at the borrower's option.

The issue is thought to involve an interest rate swap whereby the bank exchanges its fixed rate liability for the floating rate liability of an unnamed counterparty.

● Cedel, the Luxembourg-based Eurobond clearing house, had its most active year in 1982 with transactions worth $232bn cleared compared with $155bn in 1981, according to Mr Edmond Israel, the chairman.

Participants in the system rose to 1,169 from 1,093 and the volume of securities on deposit increased to $47bn from $33bn. Net profit advanced 96 per cent to $1.4m.

Gotaas Larsen sells part of LNG carrier

BY WILLIAM HALL IN NEW YORK

GOTAAS LARSEN, the loss-making Bermuda-based shipping group, has sold a half share in the Golar Spirit, a laid-up liquefied natural gas (LNG) carrier, which has proved a heavy drain on the company's financial resources. It has also secured a 20-year charter for the vessel, beginning in late 1986.

Gotaas Larsen has sold the 50 per cent interest in the Golar Spirit to P. T. Samudra Petrindo Asia, a diversified Indonesian company with shipping operations. It has also initialled a final agreement with Pertamina, the Indonesian state-owned petroleum and gas company, on the terms of a 20-year charter carrying LNG between Indonesia and South Korea.

The charter, which is to be formally signed in conjunction with the signing of the LNG sales and purchase contract between Pertamina and Korea Electric Power Corporation, which is anticipated shortly, will commence in late 1986.

In anticipation of the charter and sale of a half interest in Golar Spirit, Gotaas Larsen set up an exceptional reserve of $75.5m last year. This reserve is considered adequate to cover anticipated losses prior to the commencement of the charter.

Mr Seabrook, chairman of Gotaas Larsen, says that "although significant cash outflows will continue to occur until the commencement of the charter, these agreements, when finally concluded, would remove a major uncertainty about the future of Gotaas Larsen."

Even if the Golar Spirit remains laid up until late 1986, when the charter is expected to begin, the company says that the assured source of future revenue "will help stabilise the company's liquidity and clarify its future prospects."

● Travellers Corporation, the eighth biggest U.S. life insurance company, increased operating earnings in the first quarter of 1983 by 12 per cent to $76m.

Taking into account capital gains and losses on its investment portfolio, net income rose 27 per cent in the quarter to $84.4m. This was equivalent to $1 per share, against 79 cents in the comparable quarter of last year.

Marshall Field chief steps down

BY PAUL TAYLOR IN NEW YORK

MR GEORGE KELLY, chairman and chief executive of Marshall Field and Company, the Chicago department store group, which is owned by BATUS, the U.S. subsidiary of the UK based BAT Group, has resigned.

The surprise announcement comes only a few weeks after the company denied suggestions that Mr Kelly was about to leave.

Batus said that Mr Kelly's successor would not be named at present and that Mr Thomas Bagen would continue in his current position as President and Chief Operating Officer.

The announcement of Mr Kelly's resignation, effective June 1, has prompted speculation about management disagreements in the group. BATUS is thought to be looking for a successor outside the company.

BATUS bought Field last year after emerging as a "White Knight" in a takeover battle between Field and Mr Carl Ichan, the Wall Street financier.

Mr Kelly, aged 47, joined Field in 1978 as president and became chairman and chief executive in 1980 after a career which included two periods at Bloomingdale, the New York store group.

INTERNATIONAL APPOINTMENTS

Chairman at Commercial Union Corp.

● Mr A. B. Marshall, chairman of Commercial Union Assurance has been appointed chairman of COMMERCIAL UNION CORP, the company's U.S. holding company, in place of Mr J. F. G. Emms, who continues as a director of CUC.

● Mr Peter Gwinnett, formerly an assistant manager at the Abecor Banking Institute in West Germany and a training manager with Barclays Bank International, has been appointed representative and a director of BARCLAYS TRADE-FINANCE in Moscow.

● TIPHOOK CONTAINER LEASING CO has appointed Mr Bernard Miquel its marketing director. Mr Miquel was previously employed by Trailor SA, France, as sales director. He will be based in Tiphook's Paris office. Tiphook has also formed Tiphook Container Leasing (Australasia), based in Auckland, to service its Australian and New Zealand market. Mr Robbie Friddy has been appointed general manager. Mr Robbie was group marketing manager for Alltrans Freight, a subsidiary of the TNT Group.

● Dr Peter Spaeti is to succeed Dr Hans Braunschweiler on July 1 as managing director of WINTERTHUR Swiss insurance company. Dr Braunschweiler will remain chairman. Dr Paul Aerni retires as a general manager, while new general managers are Mr Gerhard Christen (services department), Mr William R. Miller (U.S. division) and Dr Peter Portmann (Switzerland non-life business).

● On July 1, Dr Hans-Peter Sigg is to succeed Professor Botond Berde as head of the pharmaceutical division of SANDOZ, Basle. Dr Sigg, who will retain responsibility for Sandoz's marketing operations, is also to join the company's executive committee on the same date. Professor Berde will remain chairman of Sandoz Forschungsinstitut, of Vienna, and a board member of the UK company Sandoz Products.

● Mr Rene Luethy has been appointed head of the environmental technology division of the Swiss engineering concern VON ROLL Gerlafingen.

● Mr Richard M. Sawdey has been elected secretary of R. R. DONNELLEY AND SONS CO, a leading American commercial printer. Mr Sawdey has been assistant secretary since 1975.

● Mr Robert G. Perry has been appointed president of PLATEAU INC, the petroleum refining and marketing operation of SPG Energy, based in Albuquerque, New Mexico. Before joining Plateau in 1981, Perry was vice-president and a director of Vickers Petroleum Corp.

● Mr Richard S. Austin has been appointed a director of BELL & HOWELL S.A., the French subsidiary of Bell & Howell company based in Paris.

● Mr Stephen R. Hardis, executive vice president—finance and administration, has been elected to the board of EATON CORPORATION. Mr Hardis was the only director standing for first-tim election to the Eaton board. Mr Haddis joined Eaton in 1979 in his present position. Prior to that, he held executive posts with Sybron Corp. and General Dynamics Corp.

Mr Stephen R. Hardis, executive vice president of the Eaton Corporation

● Mr Arthur L. Dowling has been named vice-president of advertising and public relations of Houston based KELLOGG RUST INC., a member of the Signal Advanced Technology Group of The Signal Companies, Inc. He becomes responsible for the co-ordination of the public relations and advertising programs of all members of the Kellogg Rust group of companies, and retains his position as vice-president of advertising and public relations for M. W. Kellogg, a subsidiary of Kellogg Rust.

● NEWMONT MINING CORP, New York, has elected Mr Edward F. Fontaine and Mr Gordon R. Parker directors, increasing the size of the board to 15. Mr Fontaine has been vice-president, finance, of Newmont since 1979. Mr Parker joined Newmont in 1981, as vice-president, operations, after having served since 1975 as managing director of Newmont's affiliates, O'okiep Copper Company in Cape Town, and Tsumeb Corp in South West Africa. Mr Louis A. Cassara has been elected vice-president, marketing, and Mr Timothy J. Schmitt has been elected controller.

● Thomas L. Gleason, has been elected comptroller of INLAND STEEL COMPANY of Chicago, effective July 1. He will succeed Mr Duane R. Borst, who has chosen to take early retirement. Mr Gleason was vice-president—finance for Inland's largest subsidiary, Joseph T. Ryerson & Son, Incorporated.

● Robert R. Frederick, president and chief operating officer of RCA Corporation, has been elected to the board of OLIN CORPORATION.

● Mr Charles F. Knight, chairman and chief executive officer of Emerson Electric Company, has been elected to the board of THE STANDARD OIL COMPANY (OHIO). He replaces Mr Horace A. Shepard, who is retiring. Mr Knight joined the company in 1973 as vice-chairman and was elected to his present position in 1974.

● EVANS PRODUCTS COMPANY has appointed Mr Donald Desimini as executive vice-president—finance and operations. He remains assistant to the president. Mr Desimini joined Evans as assistant to the treasurer in 1967.

FT INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Amex O/S Fin. 10¾ 90	100	98½	99	0	+0⅝	10.51
Amro Bank 13 89	200	108¼	108¾	0	+0⅜	11.08
Bk. of Amer. 8 88 XW	150	90	90½	0	+0⅛	10.68
Bk. of Tokyo Hd. 11 90	100	99⅞	100⅜	0	+0¼	10.96
British Col. Hyd. 10¼ 88	200	99¾	100¼	0	+0½	10.23
British Col. Hyd. 15¼ 92	150	120½	121	0	+0¾	11.46
Canadair 12½ 89	175	107¾	108¼	0	+0⅜	10.70
Canadian Wheat 11¼ 90	50	102¾	103¼	+0⅛	+0¼	10.85
Can. Pac. Sec. 15 89	75	110⅝	111⅛	0	+0¼	12.34
Coca Cola Int. 9⅞ 92	100	26¾	27¼	+0½	+0¼	10.38
Coca Cola Int. 11¼ 89	100	105½	106	0	+0¼	10.44
Cr. Suisse BHA 10½ 90	150	100¼	100¾	−0⅛	−0⅛	10.38
Credit Suisse 10½ 89	100	102¾	103¼	+0⅛	+0½	9.86
Deutsche Bk. F. 14¼ 89	300	112¾	112⅞	−0½	+0⅝	11.30
Du Pont 11¼ 95	150	104	104½	+0⅛	+0⅜	10.58
Du Pont 14¼ 89 WW	200	109¼	109¾	−0⅛	+0⅜	11.86
EDC 10¼ 88	100	101⅜	101⅞	0	+0⅜	10.27
EEC 10⅝ 95	75	97⅜	97⅞	−0⅛	+0⅞	11.11
EEC 11½ 95	200	100⅞	101⅜	+0⅛	+0⅜	11.30
EIB 11 91	125	100⅜	100⅞	0	+0⅛	10.88
EIB 15½ 92	100	115½	116	−0⅛	+0⅜	12.50
Exp. Dev. Cpn. 11¾ 87	100	103¾	104¼	+0¼	+0½	10.54
Forsmarks 13¼ 92	75	108½	109	0	+0⅝	12.11
Gaz de France 12¼ 93	175	103	103½	+0¼	+1	11.68
Gen. Elec. Credit 9¾ 91	100	16¼	16¾	0	+0⅝	10.39
Gen. Elec. Credit 12 89	100	107⅝	108⅛	−0⅛	+0⅜	10.23
GMAC O/S Fin. 10½ 90	200	101	101½	0	+0¼	10.21
Gulf Oil Fin. 12¼ 87	100	104¾	105¼	−0⅛	+0⅛	10.72
Honeywell Int. 10⅝ 90	100	99¾	100¼	+0⅛	+0⅜	10.74
IBM Wld. Trade 12¼ 92	200	110⅜	110⅞	−0⅛	0	10.40
Manitoba Prov. 11¼ 89	125	105⅛	105⅝	+0⅛	+0⅜	10.54
Manitoba Prov. 13¾ 89	100	110¾	111¼	+0⅛	+0½	11.21
Merrill Lynch 10⅝ 90	200	99⅞	100⅜	0	+0¼	10.60
Midland Int. F. 11½ 92	150	102⅞	103⅜	0	+0⅛	10.97
Nat. West. Fin. 11¾ 92	150	104⅛	104⅝	0	+0¼	10.96
New Brunswick 15¼ 87	75	112	112½	+0⅛	+0½	11.40
Newfoundland 15½ 90	75	117¼	117¾	+0¼	+1⅜	11.78
Nippon Credit 11⅛ 93	100	99⅝	100⅛	+0⅛	+0⅞	11.25
Nova Scotia Pr. 15¼ 89	75	115⅝	116⅛	+0⅜	+1⅜	11.51
OKB 10 91	100	96	96½	+0⅛	+0½	10.72
Ontario Hydro 11¼ 89	200	104	104½	+0⅛	+0½	10.31
Ontario Hydro 12⅜ 92	200	108⅞	109⅜	+0⅛	+0⅜	11.11
Ontario Hydro 15 92	150	120	120½	+0½	+1⅜	11.33
Prudential O/S 10⅝ 93	100	101	101½	0	+0⅜	10.41
Prudential O/S 12¾ 87	150	108	108½	0	+0¼	10.30
Quebec Hy. 11½ 92 (D)	100	103½	104	+0⅛	+0¾	10.83
R. J. Reynolds 12¾ 89	100	107¼	107¾	+0⅛	+0⅜	11.02
Sasktchwn. Pr. 10¾ 90	125	100¼	100¾	0	+0½	10.63
SNCF 11½ 93	100	100⅜	100⅞	−0⅛	+0¼	11.38
Swiss Bk. Cpn. 10¼ 90	125	102¾	103¼	0	+0⅛	9.63
Texaco Capital 9¾ 90	150	96⅞	97⅜	0	+0½	10.34
UBS 10 88	100	†102⅞	103⅜	0	+0⅜	9.19
UBS 11 89	150	104⅞	105⅜	+0⅛	+0⅛	9.87
Walt Disney Pr. 12½ 89	75	106¾	107¼	−0⅛	+0⅛	10.61
World Bank 10⅜ 88	150	100¼	100¾	+0⅛	+0⅜	10.23
World Bank 10⅞ 93	100	100½	101	+0⅛	+0⅞	10.74
World Bank 11⅛ 98	100	100¾	101¼	0	+1⅛	10.97

Average price changes... On day 0 on week +0½

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Australia 6⅞ 93	200	99½	100	−0⅛	+0¼	6.90
Bank of Tokyo 7¼ 90	100	100	100½	−0¼	+0½	7.17
Bayer Capital 7⅜ 89	150	104¾	105¼	+0¼	+0⅛	6.67
Caisse N. Energie 8 93	100	99¾	100¼	−0⅛	0	7.99
Caisse Nat. Tele. 7¾ 93	200	98¼	98¾	0	0	7.99
ECSC 7½ 93	150	98⅞	99⅜	+0¼	+0⅛	7.62
EEC 7¾ 95	200	99⅞	100⅜	0	0	7.73
EEC 8 94	200	101	101½	+0⅛	+0¼	7.80
ESCOM 8½ 90	150	101½	102	+0¼	+0⅛	8.18
Eurofima 7½ 91	100	101⅝	102⅛	0	+0⅜	7.15
Ferrovie Dello 8¼ 88	150	101½	102½	+0½	0	8.19
H. J. Heinz Int. 6⅝ 88	50	100⅝	102	+0⅛	+0½	6.39
Int.-Am. Dev. Bk. 7¾ 93	200	97¾	98¼	0	−0¼	8.05
Int.-Am. Dv. Bk. 8⅛ 93	150	101	101½	0	+0¼	8.05
Ireland 8½ 90	150	101½	102	0	+0¼	8.15
Ireland 8⅞ 91	150	103⅜	103⅞	+0⅛	+0¼	8.23
ITT Antilles 7 93	200	97¼	98⅞	−0⅛	−0⅛	7.27
McDonalds Fin. 7¼ 92	100	101½	102	0	+0⅛	6.86
Mitsui OSK 7¼ 89	100	100½	101¼	0	+0⅛	7.02
Mount Isa Fin. 7⅜ 90	100	98	98½	−0¼	0	7.96
Quebec Hydro 8 93	200	102⅜	103⅛	+0¼	+0½	7.57
Sweden Kingdom 8¼ 89	150	102⅛	102⅞	0	0	7.74
Volkswagen Int. 7¼ 93	200	98	98½	0	+0¼	7.50
World Bank 7¼ 93	200	†97⅞	98⅜	−0⅛	0	7.52
World Bank 7½ 93	300	97⅞	99⅜	+0¼	+0⅜	7.63

Average price changes... On day 0 on week +0⅛

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Air Canada 5½ 95	100	99	99¼	0	0	5.59
American Expre. 4¾ 93	100	96	96¼	0	−0½	5.28
Asian D. B. 5⅞ 95	100	99¼	99½	+0¼	−0¼	5.95
BTR Finance 5¾ 93	75	97½	97¾	0	−0⅜	5.95
Carls-Tuborg B. 5¾ 93	60	102¾	103	−0¼	0	5.37
Chugoku E. Pow. 6¼ 91	100	101½	101¾	0	−1¼	5.95
Chujitsuya Co. 5⅞ 93	50	97¼	97½	0	−0⅜	6.24
EIB 5¾ 93	100	99¾	100	+0½	+0¼	5.77
Ex-Im. Bk. Japan 6 93	100	97	97¼	−0¼	0	6.38
Fuji Electric Co. 6 93	100	101¾	102	−0¼	−0½	5.75
Gothenb'g Airport 6 93	50	100¼	100½	−0¼	+0¼	5.95
HCA Finance 5 93	100	98¼	98½	+0⅛	0	5.23
Manitoba Prov. 5¾ 93	100	101½	101¾	−0¼	0	5.03
Nippon Express 6 93	50	100⅝	100⅞	+0⅛	−0⅛	5.89
Nippon Kokan 5¾ 93	100	96¼	96½	+0¼	+0⅝	6.13
Norsk Hydro 5½ 98	100	97¾	98	0	−0½	5.71
OKG 6¼ 93	60	101¼	101½	0	−1⅛	6.51
Quebec 5¾ 92	100	101⅛	101⅜	−0½	−0⅜	5.54
Sekisui House 6 93	100	100⅜	100⅝	+0⅛	−0⅛	5.93
Shikoku El. Pow. 5⅞ 93	100	98	98¼	0	−0¼	5.88
Tohoku El. Power 6 93	100	100½	100¾	0	−0¼	5.91
Transcanada Pipe 5¾ 93	100	99	99¼	+0¼	−0⅛	5.87
Trizec Corpn. 6¼ 91	100	102	102¼	+0⅛	0	5.91
Un. Bk. Norway 6⅛ 93	60	97¼	97¾	+0½	−0⅛	5.71
Volvo 5⅛ 91	60	99¼	99½	−0¼	−1⅞	5.47
World Bank 5½ 93	100	99½	99¾	−0¼	−0½	5.55

Average price changes... On day 0 on week −0½

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Australia 8⅛ 92	15	105¾	106	0	+0⅛	7.75
EIB 8¼ 92	15	102¾	103⅛	0	+0⅛	7.81
Japan Airlines 7⅞ 87	8	†101¾	102¼	0	0	7.24
New Zealand 7⅞ 89	15	101	101½	−0⅛	+0⅛	7.33
World Bank 8⅛ 92	20	103¾	104⅛	+0⅛	+0⅛	7.77

Average price changes... On day 0 on week +0⅛

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
CEPME 12½ 90 C$	50	†98½	99¼	0	+0⅛	12.73
Farm Credit 12¼ 93 C$	50	†102	102½	0	+0⅛	11.72
Intprv. Pipe. 12¼ 93 C$	50	†99	99½	0	0	12.38
Pancanadian 12¾ 93 C$	50	†99¾	100¼	0	−0⅛	12.49
Quebec Hyd. 14 92 C$	60	†107½	108½	0	−0⅛	12.48
Swed. E. Cr. 12¾ 88 C$	50	†103½	104½	0	+0½	11.09
Trans. Mont. 12½ 90 C$	20	†98	99	+0½	0	12.83
EIB 11¾ 91 ECU	60	100¾	101¼	0	+0⅛	11.58
Queb. Prv. 11½ 89 ECU	50	96¾	97½	−0⅛	+0⅞	12.19
Austria 7½ 88 Fl	100	99¼	99¾	−0⅛	0	7.66
Consol. Foods 7¾ 88 Fl	100	98¼	98¾	0	+0½	7.65
Nederland Gas 7½ 88 Fl	100	100¼	100¾	+0⅛	+0⅛	7.40
Philips Lamps 7¾ 88 Fl	100	100	100½	0	+0½	7.18
Quebec Prov. 7½ 88 Fl	100	99¼	99¾	0	+0¼	7.65
World Bank 7 88 Fl	150	98	98½	−0⅛	+0¼	7.44
OKB 14 88 FFr	400	99¼	100¼	0	−0½	13.98
Solvay et C. 14¾ 86 FFr	200	100¾	101¾	0	0	14.30
BFCE 14½ 87 £	30	107⅞	108⅞	+0⅛	+0¼	11.79
CECA 13½ 88 £	20	106	107	0	+0⅛	11.77
CNT 12½ 89 £	20	101⅛	102⅛	0	+0⅛	11.94
EEC 11⅞ 91 £	50	100⅛	100⅞	0	+0⅜	11.75
Fin. for Ind. 12⅝ 88 £	30	103⅜	104½	+0⅛	+0¼	11.16
F. Mat. Oranj. 12⅞ 93 £	30	103⅛	104⅛	+1⅞	+2⅞	11.94
Gen. Elec. Co. 12⅞ 89 £	50	105⅝	106⅝	+0⅛	+0¼	10.98
Hiram Walker 14¼ 86 £	25	106⅞	107⅞	0	0	11.16
Mort. Bk. Fin. 11¼ 89 £	15	28	29	0	+1	12.17
Norsk Hydro 12 90 £	30	102⅛	103	0	+0⅛	11.39
Norsk Hydro 14½ 87 £	30	109	109	+0⅛	+0¼	11.78
Quebec 14½ 89 £	30	109½	110½	0	+0⅛	12.10
SDR France 15½ 92 £	30	107⅞	108⅝	0	+0⅛	13.82
SNCF 11½ 89 £	30	97⅞	98⅜	+0⅛	+0⅞	11.86
Tenneco Int. 14⅛ 87 £	30	108⅝	109⅝	0	+0½	11.84
World Bank 11½ 91 £	75	98⅞	99½	+0⅛	+1⅛	11.64
Euratom 11 93 LuxFr	500	103¼	104¼	+0⅛	+0⅞	10.36
Europarat 10⅝ 93 LuxFr	600	102½	103½	+0⅛	+0⅜	10.25

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn	C.yld
Bk. of Tokyo 5¼ 91 (D)	0⅛	100	100½	10/6	9¾	9.73
BFCE 5¼ 88	0¼	99¼	99⅝	20/7	9¼	9.31
BFCE 5¼ 87	0¼	99⅝	99⅞	27/7	9.94	9.96
Caisse Nat. Tele. 5¼ 90	0¼	99⅝	99⅞	21/10	9.56	9.60
CCF 5¼ 98	0¼	99⅝	99⅞	7/10	10.19	10.21
CCF 5¼ 98	0¼	99¾	100	24/8	9.94	9.95
CEPME 5¼ 88 WW	0¼	99¾	99⅞	3/6	5⅛	5.27
CEPME 5¼ 92	0¼	99¾	99⅞	10/6	9.94	9.96
Chemical NY 5¼ 94	‡0¼	100⅛	100⅜	23/6	9⅞	9.84
Credit Agricole 5¼ 97	0¼	99½	100	24/9	10	10.03
Credit du Nord 5¼ 92	0¼	98⅞	99⅛	23/6	10⅛	10.21
Credit Lyonnais 5¼ 97	0¼	99⅝	100⅛	1/10	10.06	10.08
Credit Lyonnais 5¼ 94	0¼	99¼	99¾	5/7	9¾	9.81
Credit Nat. 5¼ 94	0¼	99	99¼	9/9	9¼	9.32
EDF 5¼ 95 XW	0¼	99¾	99⅞	10/8	10	10.05
Kansallis Osaka 5¼ 92	0¼	99⅞	100⅛	6/5	10.06	10.06
Long Term Credit 5¼ 92	0¼	99⅞	100⅛	27/5	10⅛	10.13
J. P. Morgan 5¼ 97	§0⅛	100⅛	100⅜	12/5	9½	9.48
New Zealand 5¼ 87	0⅛	100⅛	100⅜	7/10	10.06	10.01
NZ Steel Dev. 5¼ 92	0⅛	100	100½	22/6	10.19	10.16
Nippon Credit 5¼ 90	0⅛	100⅛	100⅜	10/8	9⅞	9.84
Scotland Int. 5¼ 92	0⅛	100¼	100½	23/9	9.94	9.90
Sec. Pacific 5¼ 91	0¼	99⅞	100⅛	24/5	10.06	10.05
Societe Generale 5¼ 95	0¼	99¼	99½	1/9	9½	9.55
Standard Chartd. 5¼ 91	0⅛	100	100½	18/5	10.69	10.66
Sweden 5¼ 93	0⅛	99½	100	3/8	10.19	10.21
Sweden 5¼ 89	0⅛	99½	100	25/8	9⅝	9.65

Average price changes... On day −0⅛ on week −0⅛

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
Ajinomoto 5¼ 96	7/81	848.2	99½	101	+0¼	9.52
Bridgestone Tire 5½ 96	3/82	470	114¾	116¼	−0¼	8.04
Canon 7 97	7/82	748.2	194	196	+1	−0.12
Fujitsu Fanuc 4¼ 96	10/81	4491	122½	124½	−0½	6.96
Hitachi Cable 5¼ 96	2/82	515	97¾	99¼	−0⅛	2.08
Hitachi Cred. Cpn. 5 96	7/81	1612	100⅛	102½	+0¼	16.03
Honda Motor 5½ 97	3/82	759.6	115	116½	+1	1.17
Kawasaki 5¼ 96	9/81	229	83¼	85¼	+0¼	22.30
Kumagai Gumi 6¼ 97	10/82	400	113	114½	−0½	1.25
Kyowa Hakko 6¼ 97	2/83	762	104⅛	105¾	−0¼	10.43
Marui 6 96	7/81	769.5	123	124½	+0⅛	4.92
Minolta Camera 5 96	10/81	826.4	86	87½	+0⅛	47.23
Murata 5¼ 98	7/81	1714	113¾	115¼	−1⅛	1.27
Nippon Electric 5¼ 97	2/82	765.9	130½	132	+0½	4.53
Nippon Oil Co. 5½ 98	4/83	964	99½	100¼	+1⅞	7.96
Nissan Motor 5¼ 98	12/82	770	96	97	−0¼	−1.92
Olympus Optic. 6¾ 97	12/82	1331	101¼	102¾	−0¼	5.13
Orient Finance 5¼ 97	3/82	927.2	111½	113	−0¼	7.40
Sumitomo Elec. 5½ 97	3/82	577.3	102¾	104¼	+2¼	3.03
Sumitomo Met. 5¼ 96	10/81	296.1	80	81½	+0¼	52.82
Sanyo Elec. 3½ 93 SwFr	5/83	501	103¾	104¼	−0¼	2.89
Sharp Cpn. 3½ 93 SwFr	3/83	1190	114	114½	+1½	−0.26
Konishiroku 6¾ 88 DM	6/82	616	112½	113½	+0½	7.76
Mitsubishi H. 6 89 DM	2/82	263	107½	108½	0	16.16
Sum Realty 6½ 92 DM	2/83	365	119¾	120¼	+2¼	7.50

EUROBOND TURNOVER

(nominal value in $m)

	Cedel	Euro-clear
U.S. $ bonds		
Last week	5,173.2	10,575.7
Previous week	4,563.1	10,125.2
Other bonds		
Last week	1,431.0	699.5
Previous week	1,428.0	954.9

* No information available—previous day's price.

† Only one market maker supplied a price.

STRAIGHT BONDS: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡ three-month; § above mean rate) for U.S. dollars. C.cpn=The current coupon. C.yld=The current yield.

CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date for conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

The list shows the 200 latest international bonds for which an adequate secondary market exists. The prices over the past week were supplied by: Kredietbank NV; Credit Commercial de France; Credit Lyonnais; Commerzbank AG; Deutsche Bank AG; Westdeutsche Landesbank Girozentrale; Banque Generale du Luxembourg SA; Banque Internationale Luxembourg; Kredietbank Luxembourg; Algemene Bank Nederland NV; Pierson, Heldring and Pierson; Credit Suisse/Swiss Credit Bank; Union Bank of Switzerland; Akroyd and Smithers; Bank of Tokyo International; Chase Manhattan; Citicorp International Bank; Credit Commercial de France (Securities) London; Daiwa Europe NV; Deltec Securities (UK); EBC; First Chicago; Goldman Sachs International Corporation; Hambros Bank; IBJ International; Kidder Peabody International; Merrill Lynch; Morgan Stanley International; Nomura International; Orion Royal Bank; Robert Fleming and Co.; Samuel Montagu and Co.; Scandinavian Bank; Societe Generale Strauss Turnbull; Sumitomo Finance International; S. G. Warburg and Co.; Wood Gundy.

Closing prices on May 6

UK COMPANY NEWS

USM placing puts £3.85m tag on Mellerware Intl.

BY DOMINIC LAWSON

THE UK's largest independent manufacturer of holloware and small domestic electrical appliances Mellerware International is coming to the Unlisted Securities Market by way of a placing of 1,512,500 shares at 70p.

At that price Mellerware will be capitalised at £3.85m. Of the shares being placed, about 1m are being sold by three members of the Meller family, which controls the company.

The business of the group was established in 1933 by Mr John R. Meller, the president of Mellerware, and it was incorporated as a public limited company in 1962.

Last year the company made pre-tax profits of £541,000 on turnover of just under £5m. There is no profits forecast, but Mr John P. Meller, chairman, said: "We have a full order book and the next 12 months look very good for us."

Originally solely involved in holloware manufacture the group entered the domestic electrical appliance market in 1979, and today nearly 80 per cent of its business is in that field.

Major customers include Argos, Boots, Comet and Currys. Recently a major contract has been signed with Moulinex which should ultimately generate an extra £2m of turnover.

Mr John P. Meller said: "We are going to concentrate much more on marketing. We have a new secret product, which is a totally new kind of domestic electrical appliance."

At the placing price the shares are on a fully taxed historic p/e ratio of almost 15, and on an indicated gross yield of 5.14 per cent. Net asset value per share is 35p. Brokers to the issue are Margetts and Addenbrooke East Newton. Dealings should begin on Friday.

● comment

Mellerware International hints strongly that the main reason for coming to the USM is to enable the funding of acquisitions by paper. But there is no doubt that it is also providing a very nice retirement nest egg for the founder and his wife. Mellerware had chugged along quite happily on hollow-ware manufacture for many years, but moves, first into the domestic electrical appliance market, and then into distribution have turned Mellerware into quite a fast growing company. In addition, the recent growth has been accompanied by an improvement in margins. However, a profit forecast really would have been more welcome than talk about secret new product ranges. Or perhaps not. In a speculative market a bird in the bush always appears more desirable than one in the hand.

Minet 'not consulted on stake'

FOLLOWING St Paul Companies Inc., the U.S. property and casualty insurance group, increasing its stake in Minet Holdings, the British insurance broker, to more than 25 per cent—which Lloyd's insurance market felt could lead to conflicts of interest—Minet has announced that it was not consulted about the St. Paul's share purchases.

Moreover, Minet says it did not approach St. Paul to become a shareholder and certainly did not encourage it to increase its present shareholding to 25.98 per cent.

Mr Ray Pettitt, Minet chairman and chief executive, said that Sir Peter Green, Lloyd's chairman, had stated that in view of St. Paul assurances—that it intends to remain a minority shareholder by not increasing its stake further and that it recognises that Minet should demonstrably maintain its complete independence—the new St. Paul shareholding will not prejudice Minet's status as a Lloyd's broker.

Tilling defends profit forecast

BTR was accused at the weekend by the board of its bid target Thomas Tilling of making an "ill-informed" attempt to discredit Tilling's profit forecast.

Tilling says that its forecast of a jump in pre-tax profits from £43.7m to around £95m this year was: "carefully prepared by the company in conjunction with its advisers."

On Friday BTR advised shareholders to treat the profit forecast with "considerable caution."

International Income offered at 587p

The application list will open on Wednesday for the UK offer for sale by International Income Property. This U.S. commercial property investment concern, is seeking to raise $16.9m, after expenses, through a placing and offer involving 2m shares, representing around 22.2 per cent of the enlarged capital.

The offer is of 1m 1 cent common shares at 587p each. This is equivalent to a 12 per cent discount to revalued net assets prospective. This issue is accompanied by a forecast of a 1983 dividend of not less than the 80 cents paid for 1982, giving a prospective yield of 8.6 per cent or more at current exchange rates.

Brokers to the issue at Cazenove and Co and dealings are expected to start on May 16.

The placing of the remaining 1m shares is with UK institutions some of whom are among the British investors believed to hold about half the company's equity already.

The shares of the company, which was founded in 1977 by Gerard J. Dusseldorp, founder and chairman of Len Lease Corporation of Australia, are traded over the counter in the U.S.

● comment

IIP offers UK investors a rare opportunity to make a direct investment in U.S. commercial property. In addition to the high yield there is the added appeal of the special tax advantages, though exchange rates are an unknown factor. Unlike most existing media for British investors to become involved in U.S. property, the company intends to have a broad investment strategy, and with 120 people concerned in management—many active on site—it plays a far from passive role in its investments, in contrast to a typical investment trust. What investors are going to buy on is the belief that Mr Dusseldorp can perform the same magic with this company as he has done for Lend Lease and later General Property Trust. With the American economy seemingly on the upturn this would seem the right time for buying a piece of the action. But the U.S. is a big place and the company, as yet, only small, so it is vital for Mr Dusseldorp to have his counters on the right squares when the game starts, to enjoy any boom.

Clyde awaits Saxon support

Clyde Petroleum is awaiting support from the board of Saxon Oil for a proposed revised offer for Saxon. Saxon had withdrawn agreement to earlier merger terms following promising analysis of drilling on Block 16/8b.

The proposed new terms would be for Clyde to offer five of its ordinary and six deferred shares for every four shares in Saxon. The deferred shares would convert to a similar number of ordinary when commercial production begins on the block.

Clyde says that the terms would place an immediate value on Saxon equivalent to 18.3 per cent of the enlarged Clyde, which would increase to 33 per cent if production started.

FT Share Information Service

The following securities have been added to the Share Information Service:

Airship Industries (Section: Industrials).
Newman Industries 10pc Cum.Conv. Red. Prog. Pref. Shares (Electricals).
Sons of Gwalia (Mines—Australian).

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interims: Akroyd and Smithers, Cramphorn, Grosvenor, Murray Clydesdale, Investment Trust, Thames Investment and Securities, Trafalgar House.

Finals: Bishopsgate Trust, British Home Stores, British Investment Trust, Fortnum and Mason, London and Liverpool Trust, Ostwich Investment Trust, Tysons (Contractors), V.W., Young Companies Investment Trust.

FUTURE DATES

Interims—
Harman Smith ... May 12
M & G ... May 26

Finals—
Avana ... June 21
Blenman Lines ... May 11
First Castle Electronics ... May 10
Hartons ... May 12
Hongkong (Selangor) Rubber ... May 12
Hunting Gibson ... May 13
Kwik-Fit (Tyres and Exhausts) ... May 11
Northern American Trust ... May 24
Sears ... May 10
Young and Co's Brewery ... May 26

RECENT ISSUES

EQUITIES

Issue price	Amount paid up	Latest Renunc. date	1983 High	1983 Low	Stock	Closing price	+ or −	Net Div.	Times Covered	Gross Yield	P.E. Ratio
—	F.P.	—	100	85	Atl'tc M'trp'n U.S.0.10	90	......	Q8c	0.6	5.0	30.5
‡68	F.P.	20.5	103	95	✠Bensons Crisps 10p	95	......	g1.9	5.1	2.9	12.6
§110	F.P.	3/6	180	125	✠Bryant (Derek) 10p	125	......	u5.25	2.0	6.0	12.2
*225	F.P.	6/5	253	220	Datastream 5p	225	−2	b2.25	3.5	1.4	23.5
§14	F.P.	31/5	15	14	Edmond Hldgs. 10p	14xr	......	b1.0	1.1	10.2	12.7
" "	F.P.	—	60	54	✠IntervisionVideo10p	58	......	1.0	2.1	3.8	15.1
§80	F.P.	20/5	135	110	✠Lorin Elect. 20p	125	−4	b1.0	5.0	1.1	20.8
§32	F.P.	—	43½	38½	MCD	40	......	u1.0	2.2	3.6	18.2
§94	F.P.	20/5	150	140	✠Microlease 10p	142	+2	ud2.0	2.6	2.0	25.0
§60	F.P.	27/5	143	120	✠Miss World Grp. 10p	120	−3	b3.0	2.5	3.6	15.3
**65	Nil	16/6	18pm	4pm	✠Mnemos 10	4pm	......	—	—	—	—
¶1350	F.P.	27/5	368	350	Octopus Publish. 20p	355	......	28.0	2.3	3.3	16.8
§£48	F.P.	—	£67	£59	Perstorp AB Free 'B'	£59	......	Q9.84%	5.8	0.7	28.0
" "	F.P.	—	36	27	✠Rivlin I. D. & S. 5p	34	+1	F0.1	—	0.5	—
§134	F.P.	—	150	138	✠Securiguard 5p	138	−2	b1.75	2.6	1.8	28.8
§105	F.P.	10/6	185	120	✠Spring Ram 10p	120	−8	u3.0	2.5	3.6	14.1
§47	F.P.	3/6	80	64	✠Strikes Rests. 10p	66	......	g1.55	3.5	2.9	15.8
§72	F.P.	30/5	118	99	✠Utd. Packaging 1p0	104	......	b2.5	3.2	3.4	11.1
" "	F.P.	20/5	44	36	✠Yorkgreen Inv. 1p0	36	−1	b1.4	2.6	5.6	8.1

FIXED INTEREST STOCKS

Issue price £	Amount paid up	Latest Renunc date	1983 High	1983 Low	Stock	Closing price £	+ or −
¶	F.P.	23/5	190p	115p	Bifurcated Con.Cum. Pref. 91-93	160p	+5
¶‡100	Nil	18/5	20ppm	15ppm	✠Booth 10% Con. Uns. Ln. 1990	20ppm	......
—	£20	28/10	20½	19¼	Bristol 11½ pc Red. 2018	20½	......
—	£25	26/8	25	24½	Brixton Est. 11¾pc Deb	24½	+¼
¶¶	F.P.	20/5	100	95	Brooke Tool 17% Conv. Prf.	95	......
‡100	Nil	12/5	17ppm	12ppm	East'n Prod. 10½% Con. Ln. 1997-2002	12ppm	......
¶101	£10	28/7	12	11¼	Folkestone Water 7% Pref. 1988	11¼	......
—	—	—	100 1/16	100	Nationwide B. S. 10 1/16% Bds. 30/4/84	100 1/16	......
¶¶	F.P.	24/6	102	100¾	NewThrogm't'n Tst. (83) 12.6% 2008	101	......
93.89	£30	15/9	30½	30½	New Zealand 11¼% 2008	30½	
¶97.174	F.P.	6/5	104¾	94	Pearson (S) 15% Uns. Ln. 2007	[illegible]	[illegible]
99.783	F.P.	17/6	99½	99½	Securities Tst of Scot. 12% 2005	[illegible]	
99.778	£25	21/9	26	25	Sunderland 11¾% Red. 2008	[illegible]	
¶	Nil	12/5	2ppm	1ppm	Tomatin Dist. 7pc Cnv. Pref.	1ppm	−1
¶98.575	£25	31/8	24	23½	Trafford Park Est. 11¾% 2007/11	[illegible]	
100	F.P.	13/5	112p	105p	Wellman Eng. 10% Irr. Pref.	[illegible]	

"RIGHTS" OFFERS

Issue price	Amount paid up	Latest Renunc. date ●	Latest Renunc. date ■	1983 High	1983 Low	Stock	Closing price	+ or −
35	Nil	—	—	14pm	11pm	Anvil Pet. 20p	11pm	−1
55	F.P.	26/4	3/6	115	97	BSR 10p	112	
158	F.P.	8/4	31/5	206	175	Brit. Car Auctions 10p	[illegible]	
45	F.P.	30/4	3/6	53	49	Camben Grp. 10p	49	
42	Nil	—	6/6	16pm	[illegible]	Combined Tech. 10p	[illegible]	−1
85	Nil	—	3/6	39pm	33pm	Dubilier 5p	[illegible]	−1
125	Nil	—	17/6	25pm	21pm	EIS	21pm	−2
14	Nil	19/5	31/5	1½pm	[illegible]	Edmond Hlds. 10p	[illegible]	−1
155	Nil	—	—	66pm	57pm	Electro Protective $0.05	57pm	−7
585	F.P.	—	27/5	655	522	Fisons £1	[illegible]	−15
163	F.P.	11/5	10/6	186	162	Geers Gross 10p	[illegible]	
145	Nil	—	—	21pm	12pm	GKN £1	[illegible]	[illegible]
198	F.P.	6/5	8/6	246	206	✠Immediate Business 10p	[illegible]	−6
185	F.P.	20/4	17/6	330	215	LASMO	303	−7
110	F.P.	3/5	27/5	125	112	Leisuretime Int. 10p	115	
290	F.P.	6/5	10/6	365	357	Mills & Allen	365	
176	F.P.	28/4	26/5	248	224	Mowlem (J.)	232	
1.25	Nil	13/5	24/6	17½pm	14pm	Norton (W.E.) 1p	14pm	−½
—	F.P.	6/6	3/6	29½	15½	Sheffield Brick	28	+5
178	Nil	—	—	24pm	19½pm	Spirax-Sarco	20pm	
390	Nil	—	10/6	60pm	40pm	Standard Chartered Bank £1	53pm	−2
140	Nil	—	—	115pm	105pm	Warehouse Gp.	[illegible]	
15	F.P.	26/4	27/5	26½	22	Whittington Int'l	23	+1

Renunciation date usually last day for dealing free of stamp duty. *b* Figures based on prospectus estimates. *d* Dividend rate paid or payable on part of capital; cover based on dividend on full capital. *g* Assumed dividend and yield. *u* Forecast dividend: cover based on previous year's earnings. F Dividend and yield based on prospectus or other official estimates for 1983. H Dividend and yield based on prospectus or other official estimates for 1983-84. Q Gross. ‡ Cover allows for conversion of shares not now ranking for dividend or ranking only for restricted dividends. ● Figures or report awaited. § Placing price. *p* Pence unless otherwise indicated. ¶ Issued by tender. ‖ Offered to holders of ordinary shares as a "rights." ** Issued by way of capitalisation. §§ Re-introduced. ¶¶ Issued in connection with reorganisation merger or take-over. ‖‖ Introduction. □ Issued to former preference holders. ■ Allotment letters (or fully-paid). ● Provisional or partly-paid allotment letters. ★ With warrants. ‡ Effective issue price after scrip. † Formerly dealt in under special rule.

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

Company	Date	Announcement last year
AE	May 27	Interim 0.8
AB Foods	May 24	Final 2.9
*Akroyd and Smithers	May 9	Interim 4.0
Allied Irish Bank	May 26	Final 5
Allied Lyons	June 2	Final 3.5
Anglo Am. Cpn. of SA	June 1	Final 75c
*Assoc. Paper Industs.	May 10	Interim 1.0
*Aust. and NZ Banking	May 23	Interim 14c
*Avana	June 21	Final 3.6
*Avon Rubber	May 25	Interim 1
*BOC	May 12	Interim 2.6
*Bank of Ireland	May 12	Final 14.0
*Bass	May 25	Interim 2.68
Beecham	June 3	Final 4.3
*Bellway	May 16	Interim 3.0
*Boots	May 25	Final 5.625
Brit. and Com. Shipping	June 17	Final 7.5
*British Home Stores	May 9	Final 3.0
*Brockhouse	May 26	Interim nil
*Brown (M.)	May 16	Interim 1.35
Capital and Cntss. Prop.	May 26	Final 2.8
Carless Capel	June 9	Final 2.5
Cater Allen	May 25	Final due
Chloride	June 18	Final nil
Coalite	June 2	Final 3.1
*Cts. Patons	May 11	Final 2.6
Common Bros.	May 19	Interim 1.429
*Costain	May 10	Final 6.5
Courtaulds	May 27	Final 2
Debenhams	May 21	Final 4.324
De La Rue	June 2	Final 15.48
Dobson Park	June 4	Interim 1.9
Eastern Produce	June 4	Final 3.22
Electronic Rentals	June 3	Final 3.143
Elliott (B.)	June 10	Final nil
Eng. China Clays	June 17	Interim 3.0
Ferguson Industrial	June 14	Final 3.5
*Grand Metropltn.	May 16	Interim 3.5
Great Portland Ests.	June 9	Final 4.0
Guinness (A.)	June 15	Interim 1.575
*Hall (Matthew)	May 11	Final 4.03
Harrisons and Crosfield	June 2	Final 20.5
*Heath (C.E.)	May 19	Final 9.5
Hickson and Welch	June 3	Interim 2.5
ICL	June 7	Interim nil
*Inchcape	May 13	Final 11.0
Johnson Firth Brown	June 11	Interim nil
Johnson Matthey	June 16	Final 7.0
Kenning Motor	June 14	Interim 1.75
*Land Securities	May 19	Final 5.95
London and Northern	May 19	Final 1.35
*London and Liv. Tst.	May 9	Final 1.7
Lond. and O'seas Freighters	June 18	Final nil
Marley	June 2	Interim 1
*Metal Box	June 13	Final 6.51
Mountview Ests.	June 3	Final 2.6
Muirhead	June 15	Interim 2.0
Nat. Bank Aust.	May 13	Interim 11c
*Northern Foods	June 22	Interim 2.0
Pauls and Whites	June 17	Final 6.25
Pegler-Hattersley	June 9	Final due
Pilkington Bros.	June 11	Sec. Int. 5.5
Plessey	May 27	Final 5.073
*Polly Peck	May 19	Interim due
RHP	May 27	Interim 2
Sainsbury (J.)	May 5	Final 2.75
Samuel (H.)	May 26	Final 4.75
*Sears	May 10	Final 1.8
*600 Group	June 9	Final 2.91
Sketchley	June 8	Final 7.3
Smurfitt (Jeff.)	May 12	Final 3.219
Tate & Lyle	May 26	Interim 4
Tesco Stores	June 16	Final 1.9
Tozer Kemsley and Millbourn	Apr 17	Final 0.3
*Trafalgar House	May 9	Interim 3.5
UBM	June 3	Final 1
Vaux Brews.	May 13	Interim 2.75
Westland	June 9	Interim 2.75
*Whessoe	May 11	Interim 2.0
*Whitbread	May 17	Final 3.4

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

Closing prices May 6

NEW YORK STOCK EXCHANGE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
12¼	6¼	AAR	.44	3.7	18	76	11⅞	11⅝	11⅞	+ ¼
37¼	27½	ACF	2.76	7.7	15	287	35¼	34¼	35¼	+ 1½
20	12¼	AMF	.50	3.1		2838	16¼	16	16¼	+ ⅛
29¾	13¼	AMR Cp				5327	u30⅛	29¾	30	+ ⅜
15⅜	4	AMR wt				3077	u15⅞	15¼	16	+ ⅝
18¼	12⅞	AMR pf2.18		12.		46	18	17⅞	17⅞	
34¼	24⅞	AMR pf2.13		6.2		952	u35	34	34½	+ 1
7	2½	APL				125	7	6⅞	7	
50	25⅞	ARA	2.05	4.1	14	669	u50¼	49½	50½	+ ½
78⅞	24½	ASA	3a	4.1		1961	74¼	72	73	+ ⅝
31	13⅞	AVX	.32	1.0	51	258	u32½	31¼	31½	+ ¼
47½	27⅞	AbtLab	1	2.2	18	4217	46	44⅞	45⅝	+ ¼
29¾	28½	AccoW	n.12a	.4	22	97	29¼	29⅛	29¼	+ ⅛
22⅞	15⅞	AcmeC	.40	1.8		55	22¼	21	21¼	+ ¼
13½	5¼	AcmeE	.32b	2.4	44	319	u13⅝	13¼	13½	
19⅝	4⅞	AdmDg	.04	.2	16	69	18⅝	18¼	18⅛	− ¼
17⅞	12½	AdaEx	1.73e	10.		101	17⅞	16⅞	17⅛	
12⅞	4⅞	AdmMl	.24	2.0	11	80	12⅛	12	12⅛	+ ⅛
28	12⅞	Advest	s.16	.6	14	189	27¼	26⅞	27⅞	+ ¼
44¼	13	AMD	s		58	1929	u45¼	43¼	45¼	+ 1⅞
44⅜	32⅞	AetnLf	2.64	6.5	8	2197	41½	40⅝	40⅞	− ¾
39¼	8	Ahmns	.60	1.5		2279	39⅛	38½	39	+ ⅝
4	2⅞	Aileen				61	3⅛	3½	3½	+ ⅛
40¼	23⅞	AirPrd	.80	1.9	13	2988	42	41	41¼	+ ¼
25½	8¼	AirbFrt	.60	2.4	26	714	u25⅞	25	25	− ⅜
3	2	AlMoa	n		5	118	3	2⅞	2⅞	− ⅛
32⅞	24⅞	AlaP pfA3.92		12.		6	u32¼	32	32	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

A—B—B

C—C—C

D—D—D

E—E—E

F—F—F

G—G—G

H—H—H

I—I—I

J—J—J

K—K—K

L—L—L

M—M—M

N—N—N

Continued on Page 21

AMERICAN STOCK EXCHANGE COMPOSITE CLOSING PRICES

Closing prices May 6

A–A–A

B–B–B

C–C–C

D–D–D

E–E–E

F–F–F

G–G–G

H–H–H

I–I–I

J–J–J

K–K–K

L–L–L

M–M–M

N–N–N

O–O–O

P–Q

Continued on Page 22

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Continued from Page 20

O–O–O

P–Q

R–R–R

S–S–S

T–T–T

U–U–U

12 Month High	Low	Stock	Div. Yld. P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
78½	27¾	USShoe	1 36 1 7 15	301	78½	75½	78	+3¼
25½	16	USSteel	1 4 2	2528	23¼	23	23¼	+ ¼
52	44	USSU	pf5 01e 10	215	50	49¼	49⅞	− ⅛
123½	113⅛	USSU	pr12 75 10	112	u124	121½	124	+3½
29⅝	14⅝	USTob	s1 16 3 9 14	184	u30	29¼	29⅞	+ ½
76¼	35	UnTech	2 60 3 7 13	3401	72	70	70⅞	+ ⅞
94⅞	43⅝	UTch	pf3 87 4 3	6	90	87½	90	+2⅜
35½	20¼	UTch	pf2 55 7 4	82	34¼	33⅝	34¼	+ ½
23½	15⅝	UnTel	1 76 7 7 9	3862	23⅛	22½	22⅞	+ ⅜
28½	19⅝	UnT	2pf1 50 5 3	4	28½	28½	28½	+ ⅝
55¼	24¼	Unitrde	25 5 25	34	56¼	54½	56¼	
22½	12⅞	Univar	68 3 4 22	102	21	20¼	20¼	−1
27⅜	15⅞	UnivFd	1 04 4 3 9	38	24½	24⅛	24⅛	− ⅛

Continued on Page 22

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a—dividend also extra(s). b—annual rate of dividend plus stock dividend. c—liquidating dividend. cld—called. d—new yearly low. e—dividend declared or paid in preceding 12 months. g—dividend in Canadian funds, subject to 15% non-residence tax. i—dividend declared after split-up or stock dividend. j—dividend paid this year, omitted, deferred or no action taken at latest dividend meeting. k—dividend declared or paid this year, an accumulative issue with dividends in arrears. n—new issue in the past 52 weeks. The high-low range begins with the start of trading. nd—next day delivery. P/E price-earnings ratio. r—dividend declared or paid in preceding 12 months plus stock dividend. s—stock split. Dividends begins with date of split. sls—sales. t—dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u—new yearly high. v—trading halted. vi—in bankruptcy or receivership or being reorganised under the Bankruptcy Act or securities assumed by such companies. wd—when distributed. wi—when issued. ww—with warrants. x—ex-dividend or ex-rights. xdis—ex-distribution. xw—without warrants. y—ex-dividend and sales in full. yld—yield. z—sales in full.

WORLD STOCK MARKETS

Indices

NEW YORK

DOW JONES

	May 6	May 5	May 4	May 3	May 2	April 29	1983 High	1983 Low	Since Cmpil't'n High	Since Cmpil't'n Low
♦ Industr'ls	1232.59	1232.59	1212.65	1208.01	1204.33	1226.20	1232.59 (6/5)	1027.04 (3/1)	1232.59 (6/5/83)	41.22 (2/7/32)
H'me Bnds	77.84	77.71	77.16	76.93	77.01	76.50	77.16 (4/5)	70.78 (9/2)	—	—
Transport	552.10	547.57	531.37	515.8	516.44	524.94	552.10 (6/5)	434.24 (3/1)	552.10 (6/5/83)	12.32 (8/7/32)
Utilities	129.11	129.34	128.87	127.81	127.91	128.41	129.84 (3/5)	119.51 (3/1)	163.32 (20/4/69)	10.5 (28/4/42)
TradingVol 000-s	94,410	107,860	101,690	89,359	88,170	105,750	—	—	—	—

Day's high 1244.49 (1225.81) low 1217.69 (1202.4)

	April 29	April 22	April 15	Year ago (Approx)
Indust'l div. yield %	4.48	4.60	4.69	6.58

STANDARD AND POORS

	May 6	May 5	May 4	May 3	May 2	April 29	1983 High	1983 Low	Since Cmpil'n High	Since Cmpil'n Low
Indust'ls	186.37	185.77	184.85	182.39	182.03	184.72	186.37 (6/5)	154.95 (3/1)	186.37 (6/5/83)	3.62 (30/6/32)
Comp's'te	166.10	165.56	164.70	162.34	162.11	164.42	166.10 (6/5)	138.34 (3/1)	166.10 (6/5/83)	4.40 (1/6/32)

	April 27	Apr. 20	Apr. 13	Year ago (Approx)
Indust'l div. yield %	4.01	4.04	4.14	5.64
Indust'l P/E ratio	13.69	13.76	13.40	7.88
Long Gov. Bond yield	10.35	10.44	10.41	12.93

N.Y.S.E. ALL COMMON

May 6	May 5	May 4	May 3	1983 High	1983 Low
95.47	94.4	93.75	93.14	95.47 (6/5)	80.92 (24/1)

Rises and Falls

	May 6	May 5	May 4
Issues Traded	1,934	1,994	1,852
Rises	1,164	1,183	1,032
Falls	439	475	495
Unchanged	311	356	327
New Highs	393	664	185
New Lows	3	6	8

MONTREAL

	May 6	May 5	May 4	May 3	1983 High	1983 Low
Industrials	416.10	409.50	400.82	398.31	416.1 (6/5)	331.18 (4/1)
Combined	405.18	399.55	390.81	387.44	405.18 (6/5)	325.12 (4/1)
TORONTO Composite	2436.20	2394.1	2347.2	2325.3	2436.2 (1/5)	1949.8 (4/1)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Inst. Inv.	2,630,200	1¼	+ ⅛
Amer. Motors	2,295,100	9⅞	+ 1¼
Pan. Am Air.	2,214,200	6½	+ ½
LTV	2,050,800	15¾	+ ⅞
Exxon	1,512,500	35¼	+ ⅞
J. C. Penney	1,204,600	59⅞	−2⅞
Sony	1,199,800	15⅞	—
Ford Motors	1,191,600	51⅞	+1¼
ATT	1,124,000	69½	+ ½
Chrysler	1,076,000	28½	+1½

	May 6	May 5	May 4	May 3	1983 High	1983 Low
AUSTRALIA						
All Ord. (1/1/80)	566.5	569.1	562.5	564.2	605.8 (28/4)	487.8 (4/1)
Metals & Minls. (1/1/80)	516.7	519.1	524.3	527.5	547.5 (22/4)	411.9 (4/1)
AUSTRIA						
Credit Aktien (2/1/62)	58.24	58.8	58.48	59.2	59.8 (5/5)	48.46 (15/2)
BELGIUM						
Belgian SE (31/12/63)	121.95	122.71	122.22	122.51	122.96 (28/4)	100.50 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	140.88	(u)	138.35	138.45	140.88 (6/5)	100.00 (3/1)
FRANCE						
CAC General (31/12/82)	125.8	123.5	122.6	121.8	125.8 (6/5)	98.1 (5/1)
Ind Tendance (31/12/82)	127.9	127.7	127.3	125.5	127.9 (6/5)	98.9 (3/1)
GERMANY						
FAZ-Aktien (31/12/58)	314.47	313.48	317.14	315.53	321.64 (28/4)	241.89 (25/1)
Commerzbank(Dec1953)	940.4	937.7	948.2	937.6	965.6 (27/4)	727.8 (25/1)
HONG KONG						
Hang Seng Bank (31/7/64)	986.71	987.29	988.64	1,005.15	1067.88 (14/4)	761.61 (4/1)
ITALY						
Banca Comm Ital.(1972)	182.94	184.8	185.52	187.86	214.35 (21/3)	188.46 (10/1)
JAPAN**						
Dow Average (16/5/49)	8870.64	(c)	8663.84	(c)	8784.38 (2/5)	7803.18 (25/1)
Tokyo New SE (4/1/68)	634.17	(c)	652.53	(c)	654.87 (2/5)	574.51 (25/1)
NETHERLANDS						
ANP-CBS General (1970)	126.2	124.9	124.1	123.7	131.8 (12/4)	100.1 (4/1)
ANP CBS Indust (1970)	104.1	102.5	101.8	101.6	109.2 (12/4)	83.5 (4/1)
NORWAY						
Oslo SE (4/1/83)	180.18	187.45	185.7	185.88	189.18 (6/5)	99.91 (4/1)
SINGAPORE						
Straits Times (1966)	960.41	958.46	958.82	948.8	960.41 (6/5)	712.28 (5/1)
SOUTH AFRICA						
Gold (1958)	960.0	(u)	934.6	917.3	1096.5 (1/2)	694.5 (28.3)
Industrial (1958)	903.9	(u)	899.7	890	949.5 (22/4)	749.9 (5/1)
SPAIN						
Madrid SE (31/12/82)	113.27	112.13	110.48	110.14	118.08 (13/4)	98.52 (11/1)
SWEDEN						
Jacobson & P. (1/1/58)	(c)	(c)	(c)	(c)	1427.76 (27/4)	999.18 (5/1)
SWITZERLAND						
SwissBankCpn.(31/12/58)	328.1	329.9	327.6	327.7	330.4 (2/5)	284.4 (4/1)
WORLD						
Capital Intl. (1/1/70)	—	179.1	177.3	176.4	179.1 (5/5)	154.3 (5/1)

(**) Saturday April 30: Japan Dow 8682.36. TSE 631.96

Base values of all indices are 100 except Australia All Ordinary and Metals—500, NYSE All Common—50; Standard and Poors—10; and Toronto—1,000; the last named based on 1975. † Excluding bonds. ‡ 400 Industrials. § 400 Industrials plus 40 Utilities. 40 Financials and 20 Transports. c Closed. u Unavailable.

NEW YORK STOCK EXCHANGE CLOSING PRICES

Continued from Page 21

[illegible]

NEW YORK CLOSING PRICES

Continued from Page 21

[illegible]

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

DENMARK

[illegible]

CANADA

[illegible]

FRANCE

[illegible]

GERMANY

[illegible]

ITALY

[illegible]

NETHERLANDS

[illegible]

NORWAY

[illegible]

AUSTRALIA

[illegible]

SINGAPORE

[illegible]

SWEDEN

[illegible]

SWITZERLAND

[illegible]

HONG KONG

[illegible]

JAPAN

[illegible]

SOUTH AFRICA

[illegible]

SPAIN

[illegible]

NOTES:—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

INSURANCE

Recent upheavals prompt rise of the small broker

BY CHARLES BATCHELOR

RECENT UPHEAVALS in the insurance industry have spun off a number of insurance broking firms staffed by refugees from the larger groups.

The internationalisation of insurance broking, with foreign — mainly U.S. — companies acquiring large or controlling stakes in British brokers, is continuing to provide a stimulus to directors and other employees to break away and set up smaller, more personal organisations.

Firms set up over the past two or three years have been growing fast while continuing realignments among the larger groups provide a constant supply of newcomers.

The firms' partners and directors have usually spent years in the market with their previous companies.

The new entrants are frequently specialised and claim they can often put more thought into devising an individual solution to a client's broking problem than their larger rivals.

It was the takeover in February 1982 of Seascope, a medium-sized Lloyd's broker, by Henry Ansbacher, the merchant bank, which prompted Mr David Low and a number of colleagues to establish their own operation.

Tyser Low has been in business for eight months, concentrating on the marine and energy contracting insurance fields. It is not yet an approved Lloyd's broker—two sets of accounts are now required—so it places business with Lloyd's through the long-established Tyser and Co.

Tyser Low began with a staff of 10 and has since grown to 12.

Two other recent entrants to the market are Patis and Co., based in Twickenham, and Carsons Associates of Exeter.

Carsons, which serves the West Country, and Patis, which places business with Lloyd's and looks after the London end, were set up last October by Mr Steve Collins, a former director of Nelson Hurst and Marsh, and Mr Derek Carr and Mr Mike Cookman, both from Stewart Wrightson.

Patis/Carsons acts as a brokers' broker—only handling clients' business directly when no other broker could easily do the same job—in the professional indemnity, engineering and liability and fire and business interruption fields.

Jenner Fenton Slade (JFS) was set up in July 1980 and expects to place $100m (£63m) worth of premiums into the London and international markets this year.

It started out processing its Lloyd's business through Hogg Robinson but became an approved Lloyd's broker in its own right in January 1983. Hogg Robinson retains a 25 per cent stake in the equity while the balance is held by JFS's nine directors.

The company came into being when six directors left C.T. Bowring and Co after its acquisition by Marsh and McLennan, the U.S. broker.

They began independent life with a major advantage—$40m of business from J.H. Blades and Co, a major U.S. supplier of energy-related business to the London market.

"Maintaining that business was in itself a challenge," said Mr Keith Cook, a JFS director.

Robert Fleming Insurance Brokers was started in October 1980 by Mr Peter Stoddart and Mr Clive Bowring, who, like the founders of JFS, had left C.T. Bowring. Starting with a staff of two the company now numbers 38.

Robert Fleming has gone in for areas such as medical malpractice, professional indemnity, political risks and marine insurance.

Parliamentary diary

TODAY: Commons: Completion of Remaining stages of the Police and *Criminal Evidence Bill*. Motion on EEC document 4858/83 on the special programme to combat hunger in the world.

Lords: Energy Bill, Third Reading. *Miscellaneous Financial Provisions* Bill, Committee. Social Security and Housing Benefits Bill, Committee. County Courts (Penalties for Contempt) Bill, Second Reading. St Christopher and *Nevis Termination* of Association Order 1983, Motion for Approval. Lotteries (Amendment) Bill, Second Reading. Diseases of Fish Bill, Second Reading. Unstarred question on the flexible opening hours of public houses.

Select Committees: Public Accounts —Subject: Treasury Minute 14th and 17th PAC reports 1981-82. National Health Service Management Costs: NHS Accountability: Reimbursement of Opticians' Costs. Control of Articles in Store and the use in the National Health Service. Witnesses: Sir Kenneth Stowe, KCB, CVO, Department of Health and *Social Security*: Mr A. L. Rennie, Scottish Home and Health Dept.: Sir Trevor Jones, Welsh Office (Room 16, 4.45 pm).

TOMORROW: *Commons: Debate on a* Government motion on defence and disarmament, to be concluded on Wednesday.

Lords: Telecommunications Bill, *Committee. Prohibition of Female* Circumcision Bill, Committee.

Select Committees: Environment —Subject: Problems of Management of Urban Renewal. Witnesses: Urban and Economic Development Ltd (URBED): Hillier Parker (Estate Agents/Property Developers) (Room 16, 4.15 pm).

Transport—Subject: Road Safety. Witnesses: British Motorcyclists Federation Ltd; Cyclists' Touring Club; Pedestrians Association (Room 18, 4.15 pm).

Foreign Affairs: Overseas Development Sub Committee — Subject: Supply Estimates 1983-84 (Class II Vote 10): Support for Overseas Students. Witnesses: Committee of Vice-Chancellors and Principals; British Council; Overseas Development Administration (Room 20, 4.45 pm).

Private Bill Committees—Ginns and Gutteridge, Leicester (Crematorium) Bill (Room 5, 11.00 am).

British Railways Bill (Room 6, 10.30 am).

WEDNESDAY: Commons: Conclusion of debate on defence and disarmament. Motions relating to the Housing Benefits (Transitional) Amendment *Regulations*.

Lords: Debate on the Government's record on industrial production. Criminal Trespass on Residential Premises Bill. Unstarred question on *the ineligibility of married women for* invalid care allowance and household duties test for non-contributory invalidity pensions for housewives.

Select Committees: Home Affairs—Subject: Dangerous Drugs. Witness: Customs and Excise (Room 8, 10.30 am). Industry and Trade—Subject: Follow up meeting with Rolls-Royce Ltd. Witnesses: Sir William Duncan and representatives from Rolls-Royce (Room 16, 10.45 am).

Public Accounts—Subject: Department of the Environment's oversight of housing improvement *grants*. Witness: Mr P. J. Harrop, Environment Department (Room 16, 4.00 pm).

Transport—Subject: Bus Subsidy Policy. Witnesses: Passenger Transport Executives and London *Transport*: Independent sector of the Bus and Coach Council (Room 18, 4.15 pm). Employment—Subject: Job Splitting. Witness: Rt Hon Michael Alison, MP, Minister of State for *Employment* (Room 8, 4.30 pm).

Joint Committees on Consolidation and Bills—Car tax Bill and the Value Added Tax Bill (Room 4, 4.30 pm).

Private Bill Committee—British Rail Bill (Room 6, 10.30 am).

THURSDAY: Commons: Importation of Milk Bill, Second Reading. Dentists Bill, remaining stages. Opposed private business from 7 pm.

Lords: Medical Bill, committee on re-commitment. Housing and Building Control Bill, Report. Hovercraft (Application of Enactments) (Amendment) Order 1983, Motion for Approval. Merchant Shipping (Distress Signals and Prevention of Collisions) Regulations, motion for approval.

Select Committees. Private Bill Com*mittees — Ginns and Gutteridge*, Leicester (Crematorium) Bill (Room 5, 10.30 am). British Railways Bill (Room 6, 10.30 am).

FRIDAY: *Commons: Private Members* Bills.

Lords: Social Security and Housing Benefits Bill, Third Reading. National Heritage Bill. Consideration of Com*mons amendments. Mobile Homes Bill*, consideration of Commons amendments.

No new MoT testers for year

MRS LYNDA CHALKER, Parliamentary Under-Secretary for Transport, has decided for the time being not to grant *new* authorisation for MoT tests.

This has been done to enable the Transport Department to give full consideration to the large number of outstanding applications, and to maintain satisfactory monitoring of standards. The halt to new authorisations took effect yesterday and will last for one year, after which the position will be reviewed.

There are already more than 16,000 MoT test stations in Britain. They are more than sufficient to provide a convenient service to the motorist in most areas. The Department will continue to deal with applications for new authorisations, where an increase in the number of test stations would provide better coverage in a remote area. Applications will also be dealt with, where a change of ownership of a garage is involved.

WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS—
Matthews (Bernard), Maids Head Hotel, Norwich, Norfolk, 12.00
Merchants Tst, 20, Fenchurch Street, EC. 11.45
TI Grp, Midland Hotel, Birmingham. 12.00

BOARD MEETINGS—
Finals:
Bishopsgate Tst
British Home Stores
Britain Inv Tst
Farnham and Mason
London and Liverpool Tst
Outwich Inv Tst
Tyson (Contractors)
VW
Young Companies Inv Tst
Interims:
Akroyd and Smithers
Cramphorn
Grosvenor
Murray Clydesdale Inv Tst
Thames Inv and Securities
Trafalgar House

DIVIDEND & INTEREST PAYMENTS—
Bancomer SA Sub Fltg Rate Nts 1986-90 $254.58
[illegible] Inds 2.725p
Boddingtons Breweries 2.25p
[illegible] Europe 1.75p
British Vita 2.7p
Brooks Watson Group 2.25p
CA Cavendes Sociedad Financiera Fltg Rate Dep Snally due 1986 $25.28
Christiania Bank OG Kreditkasse Fltg Rate Sub Nts 1991 $24.65
Guest, Keen and Nettlefolds 4p
Intervision Video (Hldgs) 0.5p
Kansallis-Osake-Pankki Fltg Rate Cap Nts 1992 $508.72
Marlborough Property Hldgs 0.45p
Mitchell Cotts 1.5p
Nordic Intl Finance BV Gtd Fltg Rate Nts 1991 $252.78
Oliver (George) (Footwear) 4.68p. Do A Non-Vtg 4.68p
Philips Lamps Hlds NV Fl 1.20
Southwark Corp 6¼pcRed 1983-86 3⅛pc

TOMORROW

COMPANY MEETINGS—
Barlow Hldgs, Great Eastern Hotel, Liverpool Street, EC. 12.15
Hewitt (J.) and Son (Fenton), North Stafford Hotel, Station Road, Stoke-on-Trent. 12.30
Ingham (George) and Co (Hldgs), Prospect Mill, Greetland, Halifax. 12.00
National Westminster Bank, 15, Bishopsgate, EC. 12.00
Rentokil Group, Felcourt, East Grinstead, West Sussex. 10.30
Senior Engineering Group, Connaught Rooms, Great Queen Street, WC. 12.30

BOARD MEETINGS—
Finals:
Barr and Wallace Arnold Tst
Belgrave (Blackheath)
Costain
Edith
First-Castle Electronics
James (Maurice)
Miles 33
More O'Ferrall
Prince of Wales Hotels
Rotaflex
Sears
Shires Inv
Interims:
Arenson
Associated Paper Inds
Baggeridge Brk
Cooper (Frederick)
Crystalate
Hepworth (J.)
United Wire

DIVIDEND & INTEREST PAYMENTS—
American Express Co 43cts
Bronx Engineering Hldgs 0.79p
Cambridge Electronic Inds 3.5p
Exchequer 10½ per cent 1988 5¼pc
FII Grp 1.54p
Fairview Estates 1.461p
Hewitt (J.) and Son (Fenton) 1.95p
Hongkong and Shanghai Banking Corp 37cts
Ingham (George) and Co (Hldgs) 0.5p
Merrill Lynch Overseas Capital NV Gtd Fltg Rate Nts 1987 $118.20
Roidal-Suldal Power Co 5¼pc 20-yr Sec DbLn 1984 2⅝pc
Swedish Match Co A SKr 8. Do B SKr 8
TI Grp 5p

WEDNESDAY MAY 11

COMPANY MEETINGS—
Armitage Bros, Armitage House, Colwick, Nottingham. 11.00
Cartwright (R.) (Hldgs), Chamber of Industry and Commerce, 75, Harborne Road, Birmingham. 12.00
Cape Grp, Crabtree Road, Thorpe, Egham, Surrey. 10.00
English and Scottish Investors, 2, St. Mary Axe, EC. 3.30
[illegible], 28, Bedford Square, WC. 12.30
[illegible] Ceramic Hldgs, Charing Cross Hotel, WC. 12.00
[illegible], Plaisterers Hall, 1, London Wall, EC. 12.15
Royal Insurance, Barbican Centre for Arts and Conference, Barbican, EC. 11.30
Selincourt, Thurston Road, Lewisham, SE. 12.00
Squirrel Horn, Alma Lodge Hotel, Buxton Road, Stockport. 11.00
Stag Furniture, Albany Hotel, Nottingham. 12.00
Ultramar, Savoy Hotel, Strand, WC. 11.00
United Biscuits (Hldgs), Assembly Rooms, George Street, Edinburgh. 12.00

BOARD MEETINGS—
Finals:
Aberdeen Construction
City of Oxford Inv Tst
Coats Patons
Dares Estates
Ellerman Lines
External Inv Tst
Feeder Agricultural Inds
Hall (Matthew)
Kwik-Fit (Tyres and Exhausts)
Lee Cooper
Spear and Jackson Intl
Witan Inv
Interims:
GR (Holdings)
Jessups
Whessoe

DIVIDEND & INTEREST PAYMENTS—
Aberdeen Tst 4pcRedDb 1979-84 2pc
Armitage Bros 30p
Davies and Metcalfe 1.54p. Do A Non-Vtg 1.54p
Elsco Hldgs 1p
Ericsson (L. M.) (Telefonaktiebolaget) SKr 7.5p
Mackay (Hugh) 2.5p
Planet Grp 1.5p
Rentokil Grp 2.05p
Scholes (George H.) 5p
Solex A (Reg) 4.3p. A (Br) 4.3p

THURSDAY MAY 12

COMPANY MEETINGS—
Anchor Chemical Grp, Piccadilly Hotel, Manchester. 11.30
Appleyard Grp, Parkway Hotel, Otley Road, Leeds. 3.00
BBA Grp, Norfolk Gardens Hotel, Hall Ings, Bradford, West Yorkshire. 11.30
Baird (William), Central Hotel, Gordon Street, Glasgow. 12.00
Bestobell, Institute of Directors, 116, Pall Mall, SW. 12.00
Bibby (J.) and Sons, Adelphi Hotel, 1, Ranelagh Place, Liverpool. 12.00
Castle's (Hldgs), Royal Station Hotel, Paragon Square, Hull. 3.00
Corah, Burleys Way, Leicester. 12.00
Horizon Travel, Chamber of Industry and Commerce, 75, Harborne Road, Birmingham. 2.30
Ibstock Johnsen, Hyde Park Hotel, Knightsbridge, SW. 11.30
Lex Service, 17, Great Cumberland Place, W. 12.00
Micro Business Systems, HMS Belfast, Vine Lane, Tooley Street, SE. 12.00
Ruberoid, Dorchester Hotel, Park Lane, W. 12.15
Smith and Nephew Assoc Cos, Grosvenor House Hotel, Park Lane, W. 11.30
Standard Chartered Bank, Connaught Rooms, Great Queen Street, WC. 12.00

BOARD MEETINGS—
Finals:
Bank of Ireland
Hartons
Hawtin
Holt Lloyd Intnl
Holyrood Rubber
Hongkong (Selangor) Rubber
JSD Computer Intnl
Kuala Selangor Rubber
Porter Chadburn
Seccombe Marshal and Campion
Interims:
BOC
Cambrian and General Securities
Lloyds and Scottish
North Atlantic Securities
Warner Estate

DIVIDEND & INTEREST PAYMENTS—
A and G Security Electronics 0.825p
Barclays Bank 11p
Britannic Assurance 12.65p
Cartwright (R.) (Hldgs) 3.375p
Church and Co 7p
Ferry Pickering Grp 0.909p
Royal Bank of Scotland Fltg Rate Cap Nts 1983 $51.5347
Thorpe (F. W.) 1.15p
Trust Securities Hldgs 1.25p
Utd Mizr Intern. Inv NV Gtd Fltg Rate Nts 1986 $515.35
Wankie Colliery Co 1.301250p
Yorkgreen *Invs 0.2825p*

FRIDAY MAY 13

COMPANY MEETINGS—
Desoutter Bros (Hldgs), Hendon Hall Hotel, Parson Street, NW. 12.00
Dinkie Heel, Crest Hotel, Filton Road, Hambrook, Bristol. 12.00
Duncan (Walter) and Goodricke, 1, Hobart Place, SW. 11.30
Metal Closures Group, Bromford Lane, West Bromwich, West Midlands. 12.00
Myson Grp, Great Eastern Hotel, Liverpool Street, EC. 11.00
Tilling (Thomas), Centre Point, 103, New Oxford Street, WC. 12.00
Willjay, Tara Hotel, Upton St. Leonards, Gloucester. 12.00

BOARD MEETINGS—
Finals:
Beattie (James)
Herman Smith
Hunting Gibson
King and Shaxson
Richards Westgarth
Interims:
Gleeson (M.J.)
Reliant Motor

DIVIDEND & INTEREST PAYMENTS—
Al Ind Products 0.01p
Arbuthnot Dollar Income Tst Inc PtgRedPf 3cts
Brunswick Corp 25cts
Burgess Products (Hldgs) 0.5p. Do A Non-Vtg 0.5p
Cattle's (Hldgs) 1p
Danks Gowerton 0.25p
Grant (James) (East) 6½pc1stMgtDb 1981-1984 3¼pc
Horizon Travel 2.8p
Keppel Shipyard 25cts
Lydenburg Platinum 12cts
Martonair Intnl 1.85p
Matthews (Bernard) 3.05p
Norway (Kingdom of) 5¼pc 20-yr Extern. Ln. 1964 2⅝pc
Photo-Me Intnl 3.15p
Ruberoid 4p
Scottish American Inv Co 4pc ConsDb 1902 1.9425p
Securities Tst of Scotland 3.55p
Squirrel Horn 1.0625p
Transport Development Grp 3p
Utd Wire Grp 5pcPf 1.75p
Western Mining Corp Hldgs 1ct
Willjay 1.25p
Zapata Corp 21cts

SATURDAY MAY 14

DIVIDEND & INTEREST PAYMENTS—
Desoutter Bros (Hldgs) 3p
Scottish Nthn Inv Tst 3pcDbRed (1962 or after) 1½pc. Do 4pcDb 1973-83 2pc. Do 4pcDb (1985 or after) 2pc). Do 5½pc Db 1981-86 2¾pc

SUNDAY MAY 15

DIVIDEND & INTEREST PAYMENTS—
Abbott Laboratories 25cts
Agricultural Mortgage Corp 9¼pcDb 1985-1987 4⅝pc
Alliance Inv 6pcPf 2.1p
Alliance Tst 3½pcDbRed 1975-85 1¾pc. Do 4½pcDbRed after 15/5/56 2¼pc
American Tst 6¼pcDb 1982-87 3⅛pc
BOC Grp 5¼pcDb 1981-86 2⅝pc. Do 6¼pcDb 1985-90 3⅛pc
Barclays Bank 8¼pcLn 1986-93 4⅛pc. Do 16pcCapLn 2002-07 8pc
Barnet Corp 7¼pcRed 1982-84 3⅝pc
Beattie (James) 6¾pc1stMtgDb 1986-90 3⅜pc
Birmingham District Council 11½pcRed 2012 £2.0517
Borg-Warner Corp 38cts
British Assets Tst 4pcDb 1980-85 2pc
Chase Manhattan Corp 87.5cts
Colgate-Palmolive Co 32cts
Dundee Corp Police 3½pcDb 1¾pc. Do Water 3½pcDb 1¾pc. Do Gas 3½pcDb 1¾pc
Exchequer 13¼pcLn 1996 6⅝pc
Forth Ports Authority 3½pc Funded Debt 1¾pc
Glasgow Corp Waterworks Funded Debt 4pc 2pc. Do Waterworks Funded Debt 3½pc 1¾pc. Do 3½pcIrrd 1¾pc. Do Gas 6¾pcAnnPerp 3⅜pc. Do Gas 8pcAnn Perp 4½pc
Hambros Inv Tst 5pcPf 1.75p
Hamlyn Angus Milling 5pcDb 1957-97 2½pc
Liverpool Corp 9¼pcRed 1980-84 4⅝pc
Murray Clydesdale Inv Tst 5pcDb 1955 or after 2½pc
Nash (William) 6½pcRedPf 2.275p
National Development 5¼pcLn 1979-84 2⅝pc
Northern Ireland 7pc Exchequer 1982-84 3½pc
Scottish Mortgage and Tst 4½pcIrrdDb 2¼pc. Do 5pcRedDb 1980-85 2½pc
Scottish Utd Investors 4½pcDb 1978-85 2¼pc
Second Alliance Tst 3½pcDb 1975-85 1¾pc. Do 4½pcDb 1956 2¼pc. Do 5¼pcDb 1980-85 2⅝pc
Summerville (William) and Son 6pcPf 2.1p
Standard Life Assce 5pcPerp 2½pc
TSB Gilt Fund 3.15p
Treasury 12¼pcLn 1995 6⅛pc
Tyne and Wear County Council 12pcRed 1986 6pc
Uniroyal 4¼pcRedDb 2⅛pc
West Hertfordshire Main Drain Auth 9¼pc Red 1981-83 4⅝pc

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
May 10-12	Riba Computer Conference and Exhibition (01-637 8991)	Bloomsbury Crest Hotel
May 15-18	London Furniture Show (01-385 1200)	Earls Court
May 15-19	Interior Design International (01-540 1101)	Olympia
May 16-17	Direct Marketing Fair and Conference (0727 25209)	Kensington Exhibition Centre, W8
May 17-20	Automated Manufacturing Exhibition and Conference—AUTOMAN (01-747 3131)	NEC, Birmingham
May 24-27	Chelsea Flower Show (01-834 4333)	Royal Hospital
May 24-26	International Conference and Exhibition on Computers and Communications in Investment Banking and Insurance (Northwood Hills (09274) 28211)	Barbican
May 24-27	International Word and Information Processing Exhibition and Conference (01-405 6233)	Wembley Conference Centre
June 1	Advertising Business Systems Show (01-637 7458)	Press Centre, EC4
June 3-11	Fine Art and Antiques Fair (01-385 1200)	Olympia
June 6-10	Chemical and Processing Engineering Show—EUROCHEM (01-747 3131)	NEC Birmingham
June 12-16	Shopex International (01-540 1101)	Olympia

OVERSEAS TRADE FAIRS AND EXHIBITIONS

Current	2nd Exhibition of Systems, Components and Materials for the Industrialised Building Sector—SICOMAT '83 (01-486 1951) (until May 10)	Milan
Current	Manila Apparel Market Week (01-245 0742) (until May 10)	Philippines
May 17-19	Europe Software Exhibition (01-486 1951)	Utrecht
May 17-20	Technology/Inpex Exposition (Pittsburgh (412) 642 7580)	Pittsburgh
May 18-June 1	Algiers International Trade Fair (01-221 7800)	Algiers
May 24-27	International Trade Fair for Industrial Cleaning and Maintenance (030 5411411)	Amsterdam
May 27-June 5	Paris Air Show (720.61.09)	Paris
June 8-10	International Telecommunications Congress and Trade Fair—IFCOM (01-930 7251)	Cologne
June 9-12	International Saw Mill Machinery and Forestry Exhibition—ELMIA (0732 550 457)	Jonkoping
June 21	Construction and Maintenance of Pipelines Exhibition and Conference—EUROPIPE (0727 65313)	Basle
June 26-29	National Fancy Food and Confection Show (0483 38085)	Washington
June 27-July 1	Manufacturing and Plant Maintenance Exhibition—PEMEX (01-486 1951)	Johannesburg

BUSINESS AND MANAGEMENT CONFERENCES

May 9-11	10th Zurich international corporate finance conference (01-637 4383)	Zurich
May 10-12	RRG: International insurance conference (01-236 2175)	Jersey
May 11	IRS: Employment law update 1983 (01-328 4751)	Carlton Tower, London
May 16	CBI/SMMT: The British motor industry—its potential to generate industrial recovery (01-235 7000)	Grosvenor House
May 17	London Chamber of Commerce and Industry: What the busy manager should know about pensions (01-248 4444)	London Chamber, 69 Cannon Street, EC4
May 17-20	Lloyd's of London Press: Ocean carriers' rights and liabilities (01-247 9461)	Royal Horseguards Hotel
May 17-20	EVAF: Business research for corporate development (01-637 1221)	Hamburg
May 18-20	Dataquest: 1983 European semiconductor conference (01-409 1427)	Monte Carlo
May 18	Eurofi: European Community finance for commerce and industry (Newbury (0635) 31900)	Plymouth Guildhall
May 18-20	Insig: 2nd international seminar—auditing in banking (Paris (1) 763.07.24)	Madrid
May 19	CMS: New business development—what succeeds in practice? (01-637 2281)	Barbican
May 24	Chatham House: Hawke's Australia, chances of economic recovery (01-930 2233)	St. James's Square, SW1
May 24	Industrial Society: Quality circles—keeping the enthusiasm going (01-839 4300)	Carlton House Terrace, SW1
May 24-25	British Franchise Association: Expansion through franchising (Cobbrook (964) 4909)	Holiday Inn, Swiss Cottage
May 24-26	Institution of Civil Engineers: 7th World Airports Conference (01-222 7722)	Café Royal, W1
May 26-27	Afimovac: Venture Capital in the European/French context (Paris (1) 622 2445)	Fontainebleau
June 1	Brighton Polytechnic: Interactive video and computer training (Eastbourne (0323) 21400)	Eastbourne
June 1-2	FT Conference: Vehicle components (01-621 1355)	Geneva
June 6-10	Management Centre Europe: *International negotiations* (219.03.90)	Brussels
June 9-10	Frost and Sullivan: Systems network architecture (01-486 0334)	Cumberland Hotel, London
June 16	IPS: The world truck (0730 66777)	Tara Hotel, W8
June 16	Dun and Bradstreet: Effective collection techniques (01-247 4377)	Holiday Inn, Birmingham

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

Discretionary Unit Fund Managers
36/38 New Broad St, EC2M 1NU. 01-638 4485
Disc Inc May 6 ... 338.9 361.4xd -5.6 3.99
For Dunbar see Oppenheimer Fund Management

Guardian Royal Ex. Unit Mgrs. Ltd.
Royal Exchange, EC3V 3LS 01-638 2020
Continued above Mon-Fri and Stock Exchange Dealing Page Sat.

INSURANCES

FT UNIT TRUST INFORMATION SERVICE

Authorised Units—continued

Equity & Law Tst Mngrs (a) (b) (c)
Amersham Rd. High Wycombe. 0494 33377

Euro Tst Acc	50 8	61.0	....	1.42

Robert Fleming & Co Ltd
8 Crosby Square. EC3A 6AN. 01-283 2400

AmExFd*	£254.37	250.65	....	1.87
JpExFd*	£131 43	135.61	....	1.08

Next subscription day May 16 1983.
*Fleming American Property Unit Trust.
Latest issue price (15 5) US$10.519.
Units are issued on Feb 15 May Aug. Nov.
*Fleming Property Unit Trust.
Last issue price (25 3) £2.067.
Units are issued on March 25. June 24. Sept 29 & Dec 25.
*Unauthorised.

Guardian Royal Ex Unit Mgrs Ltd (a)
Royal Exchange EC3V 3LS 01-638 2020

(b)GREGtFI	114.1	118.6	-0.4	9.73
(g)GREINAmT	92 5	99.5	+0.6	2.51
(g)GREPacTst	95.0	101.5	+0.1	1.23
(b)G ohIITs	176 9	183 3	+0 2	3.26
(b)GRESmlCos	—	100 00	....	1.56

Hexagon Services Ltd
4 Gt St Helens. London EC4P 3EP. 0708 45322

AustFrsGw	105 8	111.4	....	2.06
Brewin Cap	74.3	78.3	....	1.29
Brewin Gt Inc	70.3	74.1	....	3.62
CanGwthFd	87.7	94.4	....	1.20

Lawson Fund Managers Ltd (a) (c) (g)
43 Charlotte Sq. Edinbgh. 031-225 6001

Aust & Pac	7 7	8.4	....	0.70
High Yield ‡	20.0	21.0xd	....	10.00
Do Accum ‡	20.6	21.6	....	10.23

*Dealing Thurs. ‡ Dealing Fri.

MGM Unit Managers Ltd
MGM House. Heene Road. Worthing. 01-623 8211

High Inc	120.8	129 9xd	-0.1	6.19
(Accum Uts)	122.5	131.7	-0.1	6.19
UK Growth	115.2	123.8xd	-0.7	2 97
Accum Uts	115.4	124.8	-0.7	2.97

MLA Unit Trust Management Ltd
Old Queen Street. SW1A 9JG. 01-222 8576

MLA Units	171 7	180.2	....	2.77
MLA Int	24.4	25.6	....	1.00

The Money Market Trust
63 Qn Victoria St EC4N 4ST. 01-236 0952

Call Fund	—	—	....	10.19
7 Day Fund	—	—	....	10.06

†Unauthorised—Sterling Deposit Fund.

Offshore and Overseas—continued

Actibonds Investment Fund SA
37 rue Notre Dame Luxembrg. Tel. 47971

Actibonds Inv	$19 89		....	—

CAL Investments (IoM) Ltd
16 St Georges St Douglas. IoM. 0624 25031

CAL CM&C	0 922	0 971	....	—
CAL Metals	0.908	0.956	....	—

Dealing days every Monday.

CAL Investments (Bermuda) Ltd
PO Box 1022. Hamilton. Bermuda.

CAL CTR Fd	0 97	1.03	-0 02	—

Dealing days every Monday.

Commodity Advisory Ser (IoM) Ltd (a)
48 Athol St Douglas. IoM. 0624-20845

Com&FFFd(Acc)	98.75	102.87	—
Com&FFFd(Dist)	98.75	102.87	—

Next dealing date May 16.

DunVest Ltd
PO Box 887. Grand Cayman

NAV May 1	$126.00		....	—

Manufacturers Hanover Geofunds
PO Box 92. St Peter Port. Guernsey. 0481 23961

LA Inc	$104 88	105.10	....	9.24
LA Acc$	$121.75	121.01	....	13.49
MI T Inc	$116 57	117.16	....	6.27
MI T Acc	$128 55	129 20	....	22.31

Marine Midland (CI) Ltd
140 B way. NY 10015. USA. 212-440-1000
Queens Hse Don Rd. St Helier. 0534 71460

Int'cur	$1000.00	—	—

Initial offer. Next sub day June 16.

Norcap Fund Managers (Bermuda) Ltd
Bank of Bermuda Bldg. Bermuda. 809 29 5400

Amer Tst	$11 31	11.71	....	—

Perpetual UT Managers (Jersey) (e)
PO Box 459 St Helier. Jersey. 0534 74517

Offsh Grtn	$1.082	1.151	....	—

Rothschild Asset Management (CI)
St Julian's Ct. St Peter Port. Guernsey. 0481 26741

OC International Reserves Ltd

Bel Francs	BFr838.87	+1.050	9.28
Canadian $	C$35.99	+0.010	7.91
D-Mark	DM50.25	+0.010	3.78
Dutch Guilder	Fl49 765	+0.010	4.15
French Franc	FFr158.005	+0.095	11 05
Italian Lire	L354.34	+9	12.01
Japanese Yen	Y6181.39	+0.950	5.16
Singapore $	S$62.53	+0.010	7.89
£ Sterling	£13.99	+0.004	9 40
Swiss Francs	SWFr45.40	+0.011	3.06
U.S. $	$28.685	+0.005	8.01

Daily Dealings.
For other Rothschild Offshore Funds see Offshore and Overseas section.

SCI/Tech SA Nav
2 Boulevard Royal, Luxembourg.

SCI/Tst Nav	—	10.29	+0.06	—

Schroder Mngt Services (Jersey) Ltd
PO Box 195. St Helier. Jersey. 0534 27561
Schroder Money Funds Ltd

Sterling	£13.6533	....	—
U.S. Dollar	US$25.5861	....	—
D-Mark	US$50.5902	....	—
Swiss Franc	SwFr50.3306	....	—

Tyndall-Guardian Management Ltd
PO Box 1256. Hamilton, Bermuda.

T-G Am	$23.37	—	....	—
T-G Money	$20.63	—	....	—
T-G E'bond	$15.34	—	....	—
T-G Com	$21.50	—	....	—
T-G Mort	C$19.18	—	....	—
T-G O'seas	$11.86	—	....	—
T-G Pacific	Y1.842	—	....	—
T-G Wall St	$24.23	—	....	—

Insurances—continued

Albany Life Assurance Co Ltd
3 Darkes Lane. Potters Bar. 0707 42311
Pension Funds

EqPenFdAc	563.5	593.1	-2.6	—
Fix I PenAc	401.4	422.4	....	—
GtMinPenAc	237.3	249.8	....	—
IntMnPenAc	230.8	242.9	+1.2	—
NAmPfdAc	124.6	131.1	+1.5	—
Prop Pen Ac	213.7	224.3	....	—
MplInPnAc	477.1	502.1	-0.1	—

Commercial Union Group
St Helens. 1 Undershaft. EC3. 01-283 7500

VarblAcMay7	—	139.37	-2.65	—
An Uts May 13	—	32.12	-0.50	—
Prime Series				
Managed	106.0	111.6	-0.2	—
UK Equity	108.0	113.7	-0.2	—
Intl Equity	105.5	111.1	-0.2	—
Property	97.2	102.4	....	—
Fixed Int	102 6	108.1	-0.3	—
Indx Lnkd Gt	93.1	98.1	-0.2	—
Cash	96.5	101.6	....	—
Hand-in-Hand				
Cash	118.0	124.3	....	—
Property	136 7	143.9	....	—
NatWest	175.2	184.5	....	—

Continental Life Insurance PLC
64.70 High St. Croydon. CR0 9XN. 01-680 5225

Eqty Acc	133.5	140.6	-2.4	—
Propty Acc	129.5	136.4	-1.2	—
Intl Acc	138.9	146.3	+4.4	—
Managd Acc	136 9	144 2	-0.1	—
PensEqtyAcc	155.6	163.8	+0.2	—
PensPrpAc	140.0	147.4	+0.4	—
PensIntlAc	129.8	136.7	+0.3	—
PensMgdAc	143.7	151.3	+0.5	—

Gilt, Deposit. Index Fund prices available on request.

Guardian Royal Exchange
Royal Exchange, EC3. 01-283 7101
GRE Pensions Management Ltd

PensPrpInt	127.3	134.0	....	—
PensPrpAcc	136.7	143.9	....	—
Pnsix-LkGtIn	94.8	99.8	....	—
Pnsix-LkGtAc	94.8	99.8	....	—
PensDepInt	133.0	140.0	....	—
Pens Dep Ac	142.9	150.4	....	—

Henderson Administration
11 Austin Friars, London EC2. 01-588 3622

High Inc	134.9	142.1	-0.3	—
Gilt Edged	96.8	101.9	-0.4	—
Cap Gwth	139.8	147.2	-0.5	—
Technology	160.4	168.9	+1.6	—
Nat Res'ces	120.1	126.5	-0.1	—
Spec Sits	184.2	193.9	+1.5	—
N America	214.4	225.7	+3.2	—
Far East	156.9	165.2	+0.3	—
Property	113.6	119.6	....	—
Managed	177.3	186.7	+2.5	—
Deposit	114.8	120.9	....	—
Prime Rest	110.2	116.1	....	—
Pension Funds				
UK Equity	99.1	104.4	-0.4	—
Fixed Int	104.7	110.3	-0.4	—
Spec Sits	111.4	117.3	+1.2	—
N America	107.2	112.9	+1.8	—
Far East	104.8	110.4	+0.3	—
Managed	104.5	110.1	+1.0	—
Comm Propy	96.5	101.5	....	—
Prime Rest	96.4	101.5	....	—
Deposit	96.5	101.6	....	—

Capital Unit prices available on request.

London Life Linked Assn Ltd
100 Temple St. Bristol BS1 6EA. 0272-279179

Equity	215.1	221.5	....	—
Fixed Int	158.5	159.2	....	—
Property	161.8	166.6	....	—
Deposit	138.7	138.7	....	—
Mixed	183.4	187.3	....	—
Index Stk	113.0	113.5	....	—
International	102.4	104.4	....	—
London Life Managed Funds Ltd				
Equity (P)	154.5	159.9	....	—
Fixed Int (P)	160.9	162.1	....	—
Property (P)	117.2	121.2	....	—
Deposit (P)	116.9	116.9	....	—
Mixed (P)	144.9	148.3	....	—
Indx Stk (P)	118.9	119.7	....	—
Interntl (P)	99.9	101.8	....	—

Municipal Life Assurance Ltd
99-100 Sandling Road, Maidstone. 062 2679351

Managed Fd	95.00	100.00	....	—

Premium Life Assurance Co Ltd
Eastchester House. Haywards Heath. 0444 458721

Nat/Res'ces	105.0	111.0	+2.0	—
Property	135.0	143.0	....	—
UK Equity	132.0	139.0	-6.0	—
Intl Equity	118.0	125.0	....	—

Prudential Pensions Ltd
Holborn Bars, EC1 2NH. 01-405 9222
Pru-Link Retirement Plan

Managed Fd	138.2	144.0	....	—
Cash Fund	109.0	113.6	....	—

Save & Prosper Group
4 Gt St Helens, London EC3P 3EP. 0708-66966

Gilt Pen Fd	180.4	191.0	-0.3	—
Dep Pen Fd†	179.8	190.3	....	—
Gl Eq Pen Fd	52.7	55.8	+0.3	—

Skandia Life Assurance Co Ltd
Frobisher Hse, Southampton. 0703-334411

Managed	148.3	156.1	-0.1	—
Equity	160.9	169.4	-0.8	—
Internatnl	167.2	176.0	+1.3	—
Nth Amer	104.0	109.5	+1.10	—
Gilt Plus	137.3	144.5	+0.6	—
Property	126.2	132.8	+0.1	—
Deposit	128.3	135.1	+0.1	—
Pens Mangd	175.2	184.4	-0.1	—
Pens Equity	187.1	196.9	-1.2	—
PensGltPls	163.6	172.2	-0.7	—
Pens Dep	151.4	159.4	+0.2	—
Pens Prpty	154.5	162.6	+0.1	—

For prices of Capital Units and Guaranteed Basis Rates please phone 0703 334411.

Target Life Assurance Co Ltd
Target House, Gatehouse Road, Aylesbury. Bucks. Aylesbury (0296) 5941.

U.S. Dollar	—	—	....	5.0
Swiss Franc	—	—	....	0.8
Deutsche Mark	—	—	....	2.2
Yen	—	—	....	1.9

TSB Life Ltd
PO Box 3, Keens House, Andover, Hants SP10 1PG.

Managed Fd	98.9	104.2	....	—
Property Fd	95.6	100.7	....	—
Fixed Intl Fd	97.6	102.9	....	—
Money Fund	95.6	100.8	....	—
Equity Fund	101.4	106.8	+0.1	—

INSURANCE & OVERSEAS MANAGED FUNDS

Managed Inv. Fd.	154.59	162.52		—
Property Fd.	148.27	156.04		—
Fixed Interest Fd.	140.65	148.06		—
Cash Fd.	133.37	140.39		—
Income Fd.	159.68	168.09		—
Extra Income Fd.	154.82	165.47		—
Worldwide Growth Fd.	212.89	224.10		—
Balanced Fd.	168.11	176.96		—
Smlr Co's & Recy Fd.	197.96	208.38		—
Intl. Technology Fd.	243.52	256.34		—
Nth Amer & Gen. Fd.	158.05	166.37		—
Energy Int. Fd.	94.12	99.08		—
Pacific Basin Fund	123.39	129.89		—

British National Life Assurance Co. Ltd.

Harlands Rd, Haywards Heath. 0444 414111

Equity	97.6	102.7	−0.6	—
International	113.2	119.1	−0.9	—
Property	104.3	109.8	−2.5	—
Deposit	96.9	102.0	+0.1	—
Fixed Interest	96.6	101.7	+0.5	—
Managed	103.5	108.9	−0.6	—
Equity Pens Cap	96.9	102.0	−0.8	—
Intnl Pens. Cap.	116.7	122.8	−1.4	—
Property Pens Cap	105.3	110.8	−3.5	—
Deposit Pens Cap	96.3	101.3	+0.1	—
Fixed Int Pens Cap	95.7	100.7	+0.5	—
Managed Pens Cap	104.7	110.3	−0.9	—

Canada Life Group

2-6, High St., Potters Bar, Herts. P. Bar 51122

Equity Gth May 1		93.6		—
Rtmt. Fed May 6		233.0	−1.3	—
Managed Pen Fund	177.2	186.5		—
Property Pen Fund	110.2	116.0		—
Index Lnkd Pen Fund	119.1	125.4		—
Managed	114.8	120.9	−0.3	—
Property	99.9	105.2		—
Gilt and Fixed Interest	101.1	106.5	−0.3	—
Index-Linked	101.3	106.7	−0.5	—
Equity	113.6	119.6		—
Cash	100.3	105.6	+0.3	—
Midland Bk Unit Tst.	111.7	117.6		—
Midland Bank Intnl.	131.2	138.2		—

Cannon Assurance Ltd.

1 Olympic Way, Wembley HA9 0NB. 01-902 8876

Equity Units	£35.29	—	−0.01	—
Property Units	£18.87	—		—
Equity Bond/Exec	£23.06	24.40		—
Prop. Bond/Exec	£22.06	23.34	+0.01	—
Bal. Bd./Exec/Unit	£22.72	24.04		—
2nd Equity Acc.	180.3	190.8		—
2nd High Inc/Acc	131.9	139.6	+0.3	—
2nd Property Acc.	168.9	178.7		—
2nd Managed Acc.	164.9	174.5	+0.1	—
2nd Deposit Acc	140.6	148.7		—
2nd Gilt Acc.	139.5	147.6	+0.1	—
2nd American Acc.	189.7	200.7	+2.5	—
2nd Intl Money Acc.	137.8	145.8	+0.1	—
2nd Index Acc.	98.1	103.8	−0.4	—
2nd Eq. Pens./Acc.	245.5	259.8		—
2nd Hi Inc Pens/Acc.	136.8	144.8	+0.5	—
2nd Prp. Pens/Acc	209.5	221.7		—
2nd Mgd. Pens/Acc	206.3	218.3	+0.1	—
2nd Dep. Pens/Acc.	181.0	191.5		—
Gilt Pens/Acc	177.7	188.0	+0.1	—
2nd Am. Pens/Acc.	248.6	263.1	+4.1	—
2nd Int. Money Pens/Acc	163.6	173.1	+0.2	—
2nd Index Pens./Acc.	102.3	108.3	−0.4	—
L & E S.I.F.	70.5	75.0		—
L & E S.I.F. 2	48.0	51.0		—

GT Pen N Am. Fd.	237.6	250.1	+4.6	—
GT Pen UK & G.E. Fd.	148.0	155.8	−0.3	—
GT Pen Worldwide Fd.	141.8	149.3	+4.2	—

Assicurazioni GENERALI S.p.A.

117, Fenchurch St., EC3M 5DY 01-488 0733

Intl. Managed Bond	162.3	170.9		—

General Portfolio Life Ins. C. Ltd.

Crossbrook St., Cheshunt, Herts. Waltham X 31971

Portfolio Fd. Acc.		240.5		—
Portfolio Fd. Int.		202.8		—
Portfolio Fd. Cap.		231.9		—
Investment A uts.	240.4	253.0		—

Growth & Sec. Life Ass. Soc. Ltd.

48, London Fruit Exchange, E1 6EU 01-377 1122

Flexible Finance		2,423		—
Landbank Secs.		62.7		—
Landbank Scs. Acc.	172.4	176.8		—
G. & S. Super Fd.		£10.638		—

Guardian Royal Exchange

Royal Exchange, E.C.3 01-283 7101

Guardian Assurance

Property Bonds	299.9	312.3		—

GRE Linked Assurance Limited

Managed Initial	199.5	210.0	−2.2	—
Do. Accum.	219.3	230.8	−2.4	—
Equity Initial	250.6	263.7	−3.7	—
Do. Accum.	275.4	289.8	−4.1	—
Fixed Int. Initial	188.4	198.4	+0.1	—
Do. Accum.	207.1	218.0	+0.1	—
International Initial	196.3	206.6	+0.6	—
Do. Accum.	215.7	227.1	+0.7	—
North American Initial	94.1	99.0	+0.2	—
Do. Accum.	94.1	99.0	+0.2	—
Index-Linked Gilt Ini.	94.8	99.8		—
Do. Accum.	94.8	99.8		—
Property Initial	124.4	130.9		—
Do. Accum.	136.6	143.8		—
Deposit Initial	120.9	127.2		—
Do. Accum.	132.8	139.8		—

GRE Pensions Management Ltd.

Pens. Managed Initial	194.0	204.3	−2.3	—
Pens. Managed Acc.	208.4	219.4	−2.5	—
Pens. Equity Initial	249.3	262.4	−3.5	—
Pens. Equity Acc.	267.8	281.9	−3.7	—
Pens. Fxd. Int. Initial	188.8	198.8	+0.1	—
Pens. Fixed Int. Acc.	202.8	213.5	+0.1	—
Pens. Int'l Initial	177.2	186.5	+0.6	—
Pens. Int'l. Acc.	190.3	200.3	+0.6	—

Continued on adjacent Page Mon-Fri and Stock Exchange Dealings Page Sat.

Hambro Life Assurance P.L.C.

Hambro Life Ctr, Swindon, SN1 1EL 0793 28291

Fixed Int. Dep. Acc.	180.6	190.2		—
Equity Acc.	367.6	387.0		—
Property Acc.	271.5	285.8		—
Managed Cap.	219.5	231.1		—
Managed Acc.	328.9	346.3		—
Overseas Acc.	248.5	261.6		—
Gilt Edged Acc.	203.0	213.7		—
American Equity Acc.	217.7	229.2		—
American Man Acc.	117.3	123.5		—
American Prop Acc.	97.8	103.0		—
Pen.F.I.Dep.Cap.	196.2	206.6		—
Pen.F.I.Dep.Acc.	271.3	285.6		—

London Indemnity & Gnl. Ins. Co. Ltd.

18-20, The Forbury, Reading 583511

Money Mngr April 29	58.2			—
MMFlexible April 6	50.2			—
Fixed Interest April 29	53.4			—

London Life Linked Assur. Ltd.

100, Temple St., Bristol, BS1 6EA

See adjacent Page Mon-Fri and Stock Exchange Dealings Page Sat.

London & Manchester Gp.

Winslade Park, Exeter EX5 1DS

M & G Group

Three Quays, Tower Hill, EC3R 6BQ

OFFSHORE AND OVERSEAS

Wardley Investment Services Ltd.,

4th Floor, Hutchison House, Hong Kong

Wardley Trust	HK$35.93	37.79		2.31
Wardley Nikko As. Fd.	US$30.28	31.67		4.74
Wardley Bond Trust	$11.00	11.20		8.13
Wardley Japan Trust	$21.29	22.13		0.81

WestAvon Secs (Guernsey) Ltd

PO Box 214, St Peter Port, Guernsey 0481 27768

Gilt & Option Fd.	£1.06	1.11		3.00
US $ Option	$0.99	1.04		—

World Wide Growth Management⊕

10a, Boulevard Royal, Luxembourg

Worldwide Gth Fd.	$17.21		+0.12	—

Inv. Adv. M & G Inv. Mngt. Ltd., London

Wren Commodity Management Ltd.

10 St George's St., Douglas IoM 0624 25015

Wren Com. Fund	34.4	35.3		3.10
Chinese Fund	73.2	76.3		1.73
Precious Metal Fund	126.6	131.9		8.30
Vanguard Cmdy. Fd.	42.4	43.5		2.26
Financial Futures Fd.	128.5	137.8		—
Wren Intl. Fin.*	$0.917	0.954		—

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. ø Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ∮ Yield column shows annualised rate of NAV increase.

FT LONDON SHARE INFORMATION SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

[illegible]

Five to Fifteen Years

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

Index-Linked

[illegible]

INT. BANK AND O'SEAS GOVT. STERLING ISSUES

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH AND AFRICAN LOANS

1J	10	Aust. 6pc 1981-83	97xd	29 4	6.15	10.38
1Ja	1J	N Z. 7¼pc 1988-92	77½	1.12	9.64	11.72
150	15J	Do. 7½pc '83-86	92	15 11	8.48	11.65
—		S. Rhod. 2½pc Non-Ass.	162	—	—	—
10Mar	10Sept	Do. 3½pc 80-85 Asstd.	80	10.2	4.40	13.65
7F	7A	Do. 4½pc 87-92 Asstd.	50	7.1	9.17	14.61
150	15A	Zimbabwe Ann (£100pd)	357	15.3	—	16.31

LOANS

Public Board and Ind.

1Ja	1J	Agric. Mt. 5pc '59-89	76	1.12	6.72	10.76
1M	1S	Met. Wtr. 3pc 'B'	34½	1.2	8.81	11.49

LOANS—Continued

Financial

[illegible]

Building Societies

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

BANKS, H.P. & LEASING

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
Jan.	July	ANZ $A1	228	31.12	028c	3.3	7.0	4.6
Feb.	Aug.	Alexanders D. £1	263	21.2	20.0	—	10.9	—
May	Aug.	Algemene Fl.100	£84xc	17.8	026%	1.8	7.7	7.2
Dec.	June	Allied Irish	128	15 11	045.3%	4.0	7.6	4.2
	July	Ambacher (H.) 50p	85	5.7	3.5	—	5.9	—
July	Jan	Bk. Ireland £1	290	15.11	029.4%	—	8.7	—
May	Nov.	Bank Leumi	2½	18.5	—	—	—	—
Aug.	Feb.	Bk. Leumi (UK) £1	150	7.3	10.15	—	9.7	—

BANKS—Continued

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES AND SPIRITS

[illegible]

BUILDING INDUSTRY, TIMBER AND ROADS

[illegible]

CHEMICALS, PLASTICS

[illegible]

CHEMICALS, PLASTICS—Cont.

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ELECTRICALS—Continued

[illegible]

ENGINEERING MACHINE TOOLS

[illegible]

FOOD, GROCERIES, ETC.

[illegible]

FOOD, GROCERIES—Cont.

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS—Continued

[illegible]

LEISURE—Continued

[illegible]

MOTORS, AIRCRAFT TRADES

Motors and Cycles

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING ADVERTISING

[illegible]

PROPERTY

[illegible]

INSURANCE

[illegible]

LEISURE

[illegible]

PROPERTY—Continued

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

INVESTMENT TRUSTS-Cont.

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Continued

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Finance

[illegible]

Diamond and Platinum

[illegible]

MINES—Continued

Central African

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's
Nov.	May	Falcon Rh.50c	250	15	Q70c	♦	21.5
Nov.	May	Wankie Col Z$1	21xd	25 4	Q5c	♦	14.0
—		Zam.Cpr SBD0.24	20	980	—	—	—

Australians

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's
—		♥ACM 20c	17½	—	—	—	—
For Argosy Gld. Mines see Southern Ventures							
—		Balmoral Resources	18	—	—	—	—
—		♥Black Hill Mins.	49	—	—	—	—
—		♥Bond Corp	52	—	u010c	2.3	11.9
Nov.	Apr	♥Bougainville 1 Kina	142	7.3	Q3 42c	1.2	1.4
May	Nov	♥CRA 50c	268	15.3	†Q3c	—	0.6
—		♥Carr Boyd 20c	87	—	—	—	—
—		♥Central Pacific	30	—	—	—	—
—		♥Crusader Oil	285	—	—	—	—
—		♥Cultus Pac NL	9	—	—	—	—
—		♥Eagle Corp 10c	13	—	—	—	—
—		♥Endeavour 20c	10	—	—	—	—
Apr	Oct	♥GM Kalgoorlie 25c	530	28.9	Q10c	♦	1.1
Sept.	Feb.	Hampton Areas 10p	184	13 12	13 75	2.8	2.9
—		♥Haoma NW	26	—	—	—	—
—		♥Hill Minerals N.L.	45	—	—	—	—
—		♥Intal Mining	16	—	—	—	—

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

NOTES

[illegible]

REGIONAL AND IRISH STOCKS

The following is a selection of regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv. 20p	54	......			
Bdg'wtr. Est. 50p	260xc	......			
Craig & Rose £1	£12	......			
Finlay Pkg. 5p	36	+2			
Graig Ship. £1	£21	......			
Higsons Brew	187	......			
Holt (Jos) 25p	920	......			
I.O.M. Stm. £1	100	......			
Pearce (C. H.)	£14	......			
Peel Hldgs.	200	......			

IRISH

Exch. 15pc 1983	£100	......
Nat. 9¾% 84/89	£87⅝	......
Fin. 13% 97/02	£96¼	......
Alliance Gas	103	......
Arnott	280	......
Carroll (P.J.)	108	......
Concrete Prods.	55	......
Helton (Hldgs.)	25	−1
Irish Ropes	31	......
Jacob	72xd	......
T.M.G.	75	......
Unidare	73	......

OPTIONS

3-month Call Rates

Industrials

Allied-Lyons	15
BOC Grp.	20
B.S.R.	12
Babcock	16
Barclays Bank	35
Beecham	35
Blue Circle	44
Boots	22
Bowaters	19
Brit. Aerospace	20
B.A.T.	65
Brown (J.)	5
Burton Ord.	35
Cadburys	11
Courtaulds	8½
Debenhams	12
Distillers	22
Dunlop	6
Eagle Star	35
F.N.F.C.	4½
Gen. Accident	40
Gen. Electric	22
Glaxo	90
Grand Met.	32
G.U.S. 'A'	55
Guardian	42
G.K.N.	16
Hawker Sidd	34
House of Fraser	17
I.C.I.	35
"Imps"	11
I.C.L.	8½
Ladbroke	20
Legal & Gen.	38
Lex Service	30
Lloyds Bank	45
"Lots"	3½
London Brick	15
Lucas Inds.	15
"Mams"	12
Mrks. & Spncr	20
Midland Bank	35
N.E.I.	10
Nat. West. Bank	50
P & O Dfd.	14
Plessey	50
Racal Elect.	45
R.H.M.	6
Rank Org. Ord.	17
Reed Intnl.	28
Sears	9
T.I.	16
Tesco	14
Thorn EMI	50
Trusthouse	20
Turner & Newall	4½
Unilever	80
Utd. Drapery	14
Vickers	12
Woolworth Hld.	27

Property

Brit. Land	8½
Cap. Counties	15
Land Sec.	30
MEPC	22
Peachey	16
Samuel Props.	18
Town & City	3

Oils

Brit. Petroleum	32
Burmah Oil	10
Charterhall	5
KCA	8
Premier	4
Shell	45
Tricentrol	19
Ultramar	48

Mines

Charter Cons.	28
Cons. Gold	50
Lonrho	8½
Rio T. Zinc	55

"Recent Issues" and "Rights" Page 14

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £700 per annum for each security

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar and French franc weaken

BY COLIN MILLHAM

Better sentiment in U.S. money markets pushed the dollar slightly lower on the foreign exchanges last week. The Treasury note auctions were particularly well received, as the authorities tendered 3-year notes on Tuesday, 10-year on Wednesday and 29½-year bonds on Thursday. M1 money supply figures have been much more encouraging in recent weeks, helping to underpin the Treasury refunding programme, and also leading to speculation that the U.S. Federal Reserve discount rate may be cut ahead of the Williamsburg Summit.

Against this background the dollar fell to DM 2.4415 from DM 2.4655; F Fr 7.36 from FFr 7.3950; SwFr 2.0530 from SwFr 2.0685; and Y234.75 from Y237.85.

Intervention by the Bundesbank on the foreign exchanges during April, and on the German domestic money market to prevent excess liquidity driving down interest rates, has increased demand for the D-mark.

The German currency required sustained support to keep within EMS limits following the realignment on March 21, but showed signs of pushing upwards again last week. Another potentially strong currency, the Dutch guilder, was boosted by an increase in the Netherlands Central Bank discount rate, and this may have provided a psychological lift to the D-mark, while funds were already moving away from the dollar and towards the D-mark as Eurodollar rates eased.

Good German trade figures have also been followed by a period of worrying political unrest in France, and speculation that the French franc may not be able to hold its present value within the European Monetary System, even after the March devaluation.

M. Pierre Mauroy, the French Prime Minister, attempted to allay some of the market's fears by making a strong commitment to reducing inflation and further "tightening the screws" after the recent austerity package. This helped the franc finish the week on a slightly firmer note, after fears of an August devaluation had increased Eurofranc rates and moved the D-mark up to a record fixing level against the franc in Paris.

Hopes that the Conservatives would win an early election helped sterling's trade-weighted index to 84.7 from 84.2, and a peak for the year of 85.1 on Wednesday. The pound also climbed to $1.5780 from $1.5605.

FORWARD RATES AGAINST STERLING

	Spot	1 month	3 month	6 month	12 month
Dollar	1.5780	1.5762	1.5734	1.5704	1.5671
D-Mark	3.8550	3.8375	3.8075	3.7685	3.6958
French Franc	11.6150	11.6450	11.7450	12.0461	12.5109
Swiss Franc	3.2425	3.2263	3.1963	3.1545	3.0724
Japanese Yen	370.75	369.4	367.3	364.2	358.7

EMS EUROPEAN CURRENCY UNIT RATES

	ECU central rates	Currency amounts against ECU May 6	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	44.3662	45.2403	+1.97	+0.72	±1.5430
Danish Krone	8.04412	8.06277	+0.23	−1.02	±1.6419
German D-Mark	2.21515	2.26362	+2.19	+0.94	±1.0567
French Franc	6.79271	6.81704	+0.36	−0.89	±1.4018
Dutch Guilder	2.49587	2.54465	+1.95	+0.70	±1.4941
Irish Punt	0.71705	0.716823	−0.06	−1.31	±1.6696
Italian Lira	1386.78	1367.73	−1.82	−2.82	±4.1463

Changes are for ECU, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

BANK OF ENGLAND TREASURY BILL TENDER

	May 6	April 29		May 6	April 29
Bills on offer	£100m	£100m	Top accepted rate of discount	9.6063%	9.6665%
Total of applications	£363.845m	£407.05m	Average rate of discount	9.5551%	9.6765%
Total allocated	£100m	£100m	Average yield	9.77%	9.92%
Minimum accepted bid	£97.605	£97.585	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	55%	96%			

OTHER CURRENCIES

[illegible]

CURRENCY MOVEMENTS

[illegible]

THE POUND SPOT AND FORWARD

[illegible]

Belgian rate is for convertible francs. Financial franc 77.45-77.55. Six-month forward dollar 0.79-0.74c pm. 12-month 1.12-1.07c pm.

THE DOLLAR SPOT AND FORWARD

[illegible]

† UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 49.05-49.15.

EXCHANGE CROSS RATES

[illegible]

MONEY MARKETS

Election fever dominates

If there is to be an election this year it seems most unlikely that the Government will welcome any suggestion of increasing the building societies' mortgage rate. But it as Mr Alan Cumming, retiring chairman of the Building Societies Association, says the inflow of investors funds is some £250m below the level required to meet mortgage demand, rates will have to be increased unless the present amount paid to depositors can be made more attractive.

The only way of doing this is to reduce the general level of interest rates, and this can only be achieved by cutting clearing bank base lending rates from the present level of 10 per cent.

Stockbrokers W. Greenwell said that the mid-April reduction in base rates was not justified by the present level of monetary growth, and the market also had some rather unpleasant figures on public sector borrowing to digest during April.

On this basis it is hard to accept that another cut in base rates is imminent, particularly since the last move to single figures was followed by a sharp adjustment up to 11 per cent as sterling weakened on the foreign exchanges.

But the pound has shown a marked recovery, and although vulnerable to news about oil prices and political events, such as the timing of the next election, it has not been particularly interest rate sensitive recently. Economic fundamentals may point towards caution, but there are undoubtedly strong political motives for reducing interest rates at the moment.

On this basis it was not hard to see why the discount houses were reluctant to part with longer dated band 3 and 4 bills last week. Fixed period rates were only about ½ per cent lower, while future movements in interest rates remained very difficult to predict. Continental rates moved erratically, as the Dutch discount rate was increased and French rates came under pressure as the franc lost ground, while the Belgian authorities cut bank rate and hopes grew of a reduction in the U.S. Federal Reserve discount rate, encouraged by better money supply figures and the successful Treasury note auction.

LONDON MONEY RATES

May 6 1983	Sterling Certificate of deposit	Interbank	Local Authority deposits	Local Auth. negotiable bonds	Finance House Deposits	Company Deposits	Discount Market Deposits	Treasury Bills ♦	Eligible Bank Bills ♦	Fine Trade Bills ♦
Overnight	—	1-10½	10¼-10⅝	—	—	7-10¾	5-10½	—	—	—
2 days notice	—	—	10¼	—	—	—	—	—	—	—
7 days or 7 days notice	—	10-10⅝	10¼	—	—	10½-10⅝	10-10¼	—	—	—
One month	10⅛-10¼	10¼ 10⅜	10¼	10⅞-10½	10¼	10½-10⅝	10-10⅛	10⅛	10⅛	10⅝
Two months	10⅛ 10⅛	10⅛ 10¼	10⅛	10¾-10⅝	10¼	10⅛	9⅞-9¹⁵⁄₁₆	9⅞-9¹³⁄₁₆	9⅞	10⅛
Three months	10⅛ 9⅞	10 10⅛	10	10⅝-10¼	10⅛	10⅛	9¾	9⅞-9¾	9¹³⁄₁₆-9¹¹⁄₁₆	10⅛
Six months	9⅞-9¾	9⅞-10⅛	9⅞-10	10⅛-9⅞	10⅛	—	—	—	9⅞	10⅛
Nine months	9⅞ 9¾	10-10⅛	9⅞-10	10⅜-10	10⅛	—	—	—	—	—
One year	9⅞-9¾	10-10⅛	9⅞-10	10¼-10	10⅛	—	—	—	—	—
Two years	—	—	10⅜-10½	—	—	—	—	—	—	—

ECGD Rate Export Finance Scheme IV Average Rate for interest period April 6 to May 1983 (inclusive) 10.304 per cent.

Local authorities and finance houses seven days' notice, other seven days fixed. Long-term local authority mortgage rates nominally three years 10¾-11 per cent; four years 11-11¼ per cent; five years 11¼-11½ per cent. ♦Bank bill rates in table are buying rates for prime paper. Buying rates for four month bank bills 9¾-9²¹⁄₃₂ per cent; four months trade bills 10¼ per cent.

Approximate selling rate for one month Treasury bills 9²⁹⁄₃₂-9¹³⁄₁₆ per cent; two months 9¾-9²³⁄₃₂ per cent; three months 9⁷⁄₃₂-9¾ per cent. Approximate selling rate for one month bank bills 10-10 1/64 per cent; two months 9²⁹⁄₃₂-9 55/64 per cent and three months 9²¹⁄₃₂-9 45/64 per cent; trade bills one month 10¾ per cent; two months 10¼ per cent and three months 10⅛ per cent.

Finance Houses Base Rates (published by the Finance Houses Association) 11 per cent from May 1, 1983. London and Scottish Clearing Bank Rates for lending 10 per cent. London Deposit Rates for sums at seven days' notice 6¾ per cent.

Treasury Bills: Average tender rates of discount 9.535.1 per cent. Certificates of Tax Deposit (Series 6). Deposits of £100,000 and over held one month 10½ per cent; one three months 10¼ per cent; three-six months 10¼ per cent; six-12 months 10¼ per cent. Under £100,000 10 per cent from April 8. Deposits held under Series 3-5 10¼ per cent. The rates for all deposits withdrawn for cash 8 per cent.

INTEREST RATES

EURO-CURRENCY INTEREST RATES (Market closing rates)

May 6	Short term	7 days notice	Month	Three Months	Six Months	One Year
Sterling	10⅛-10⅛	10⅛-10⅛	10¼-10⅜	10⅛-10⅛	9½-10⅛	10 10⅛
U.S. Dollar	8½-8¾	8⅝-8⅞	8⅝ 8⅞	8⅞-8¹⁵⁄₁₆	8⅞-8¹⁵⁄₁₆	8⅞-9⅛
Can. Dollar	10-10⅛	9⅛-10	9⅛-9⅜	9⅛-9⅜	9⅛-9⅜	9¼ 9½
D. Guilder	5⅛-5⅜	5⅜-5⅛	5⅞-5⅞	5⅛-5⅜	5⅛-5⅜	6-6⅛
S. Franc	3-3¼	3-3¼	4¼-4⅜	4¼-4⅜	4¼-5⅜	4⅞-4⅞
Deutschm'rk	4⅜-4¾	4⅞-4⅞	4¾-4⅞	4⅞-5⅛	5⅛-5⅜	5⅜-5⅛
Fr'nch Franc	12½-12¾	12¾-13	13¼-13¾	14¾-15¼	16¾-17¼	17¾-18¼
Italian Lira	14-15½	14½-16	15½-16	16-16¾	17-17⅝	17¼-18¼
Belg. Franc Conv.	8¾-9⅛	9¼-9¾	9¾-10¼	9¾-10¼	10-10½	10¼-10¾
Fin.	9⅛-10	9¾-10	9⅞-10⅛	9⅞-10⅛	10⅛-10¼	10¼-10½
Yen	6-6⅛	6-6⅛	6⅛-6⅛	6⅛-6¼	6⅛-6⅛	6⅜-6½
D. Krone	12-12⅜	10½-10⅞	10½-10⅞	11⅛-11¾	11⅛-11⅞	11¾-12⅛
Asia $ (Sing.)	8¾-8⅞	8¾-8⅞	8¾-8⅞	8¾-8⅞	8¹³⁄₁₆-8¹⁵⁄₁₆	9-9⅛

FT LONDON INTERBANK FIXING

(11.00 a.m. MAY 6)

3 month U.S. dollars		6 months U.S. dollars	
bid 8 3/4	offer 8 7/8	bid 8 15/16	offer 8 15/16

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK

Prime rate	10½
Fed funds (lunch-time)	8⅝-8¾
Treasury bills (13-week)	8.02
Treasury bills (26-week)	7.99

GERMANY

Lombard	5.0
Overnight rate	5.025
One month	5.25
Three months	5.30
Six months	5.35

FRANCE

Intervention rate	12.5
Overnight rate	12.75
One month	12.75
Three months	12.75
Six months	12.8125

JAPAN

Discount rate	5.5
Call (unconditional)	6.21875
Bill discount (3-month)	6.65625

SWITZERLAND

Discount rate	4
Overnight rate	2-3
One month	4⅞-4⅞
Three months	4¼-4⅜

NETHERLANDS

Discount rate	4½
Overnight rate	5⅞-5⅞
One month	5⅞-5⅞
Three months	5⅞-5⅞
Six months	5⅞-5⅞

$ CERTIFICATES OF DEPOSIT

One month	8.50-8.60
Three months	8.50-8.60
Six months	8.55-8.65
One year	8.70-8.90

LONG TERM EURO $

Two years	9⅞-10⅛
Three years	10⅛-10⅜
Four years	10⅜-10⅞
Five years	10⅞-11⅛

SDR LINKED DEPOSITS

One month	8⅞-8⅞
Three months	8⅛-8⅜
Six months	8⅞-8⅞
One year	8⅞-9⅛

ECU LINKED DEPOSITS

One month	8⅞-8²¹⁄₃₂
Three months	8⅞-9⅛
Six months	9⅛-8²¹⁄₃₂
One year	9¾-10⅛

FINANCIAL FUTURES

THREE-MONTH EURODOLLAR $1m points of 100%

	Close	High	Low	Prev
June	91.33	91.33	91.26	91.33
Sept	91.22	91.22	91.16	91.20
Dec	90.95	90.96	90.92	90.97
March	90.74	90.74	90.72	90.78
June	90.50	90.50	—	90.52

Volume 858 (1,807)
Previous day's open int 3,837 (3,814)

THREE-MONTH STERLING DEPOSIT £250,000 points of 100%

	Close	High	Low	Prev
June	90.34	90.34	90.29	90.34
Sept	90.58	90.59	90.55	90.61
Dec	90.56	90.56	90.53	90.55
March	90.32	90.32	90.32	90.34
June	90.12	90.12	90.12	90.07

Volume 464 (840)
Previous day's open int 3,674 (3,591)

20-YEAR 12% NOTIONAL GILT £50,000 32nds of 100%

	Close	High	Low	Prev
June	105-29	106-06	105-28	106-09
Sept	105-16	105-23	105-16	105-29
Dec	107-15	107-21	107-15	107-29
March	107-09	—	—	107-17
June	106-22	—	—	—

Volume 1,347 (1,475)
Previous day's open int 2,861 (2,833)
Basis quote (clean cash price of 15½% Treasury 1998 less equivalent price of near futures contract) 2 to 10 (32nds)

STERLING £25,000 $ per £

	Close	High	Low	Prev
June	1.5763	1.5785	1.5715	1.5780
Sept	1.5725	1.5730	1.5718	1.5725
Dec	1.5700	1.5700	1.5655	1.5737

Volume 633 (1,111)
Previous day's open int 1,879 (1,821)

DEUTSCHE MARKS DM 125,000 $ per DM

	Close	High	Low	Prev
June	0.4108	0.4108	0.4099	0.4109
Sept	0.4149	0.4149	0.4145	0.4150
Dec	—	—	—	—

Volume 37 (345)
Previous day's open int 385 (380)

SWISS FRANCS SwFr 125,000 $ per SwFr

	Close	High	Low	Prev
June	0.4891	0.4891	0.4887	0.4892
Sept	0.4954	0.4954	0.4954	0.4955
Dec	—	—	—	—

Volume 20 (20)
Previous day's open int 468 (454)

JAPANESE YEN Y12.5m $ per Y100

	Close	High	Low	Prev
June	0.4265	0.4266	0.4252	0.4260
Sept	0.4294	—	—	0.4289
Dec	—	—	—	—

Volume 98 (333)
Previous day's open int 541 (564)

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

	Close	High	Low	Prev
Sept	79-00	79-06	78-17	78-22
Dec	78-16	78-22	78-01	78-06
March	78-01	78-07	77-21	77-24
June	77-20	77-24	77-09	77-11
Sept	77-08	77-13	76-30	77-00
Dec	76-31	77-03	76-20	76-22
March	76-22	76-26	76-11	76-13
June	—	—	—	—
Sept	—	—	—	—
Dec	—	—	—	—

U.S. TREASURY BILLS (IMM) $1m points of 100%

	Close	High	Low	Prev
June	92.10	92.15	92.01	92.01
Sept	92.00	92.03	91.92	91.93
Dec	91.78	91.82	91.74	91.73
March	91.61	91.62	91.58	91.55
June	91.42	91.43	91.36	91.38
Sept	91.24	91.24	91.17	91.19
Dec	91.05	91.05	91.01	91.03
March	90.89	90.89	—	90.88

CERT. DEPOSIT (IMM) $1m points of 100%

	Close	High	Low	Prev
June	91.73	91.78	91.61	91.61
Sept	91.56	91.58	91.44	91.43
Dec	91.26	91.27	91.19	91.17

THREE-MONTH EURODOLLAR (IMM) $1m points of 100%

	Close	High	Low	Prev
June	91.18	91.21	91.04	91.03
Sept	91.03	91.06	90.93	90.92
Dec	90.78	90.78	90.68	90.68
Feb	—	—	—	—
March	90.57	90.57	90.48	90.48

STERLING (IMM) Se per £

	Close	High	Low	Prev
June	1.5820	1.5840	1.5725	1.5745
Sept	1.5780	1.5810	1.5680	1.5705
Dec	1.5755	1.5780	1.5690	1.5685
March	1.5740	1.5760	1.5660	1.5665
June	—	—	—	—
Sept	—	—	—	—

GNMA (CBT) 8% $100,000 32nds of 100%

	Close	High	Low	Prev
June	72-26	72-30	72-08	72-11
Sept	72-00	72-06	71-16	71-19
Dec	71-08	71-11	70-25	70-28
March	70-18	70-23	70-09	70-09
June	70-02	70-05	69-28	69-24
Sept	69-20	69-22	69-09	69-09
Dec	69-07	69-09	68-29	68-29
March	—	—	—	—
June	—	—	—	—
Sept	—	—	—	—
Dec	—	—	—	—

WEEKLY CHANGE IN WORLD INTEREST RATES

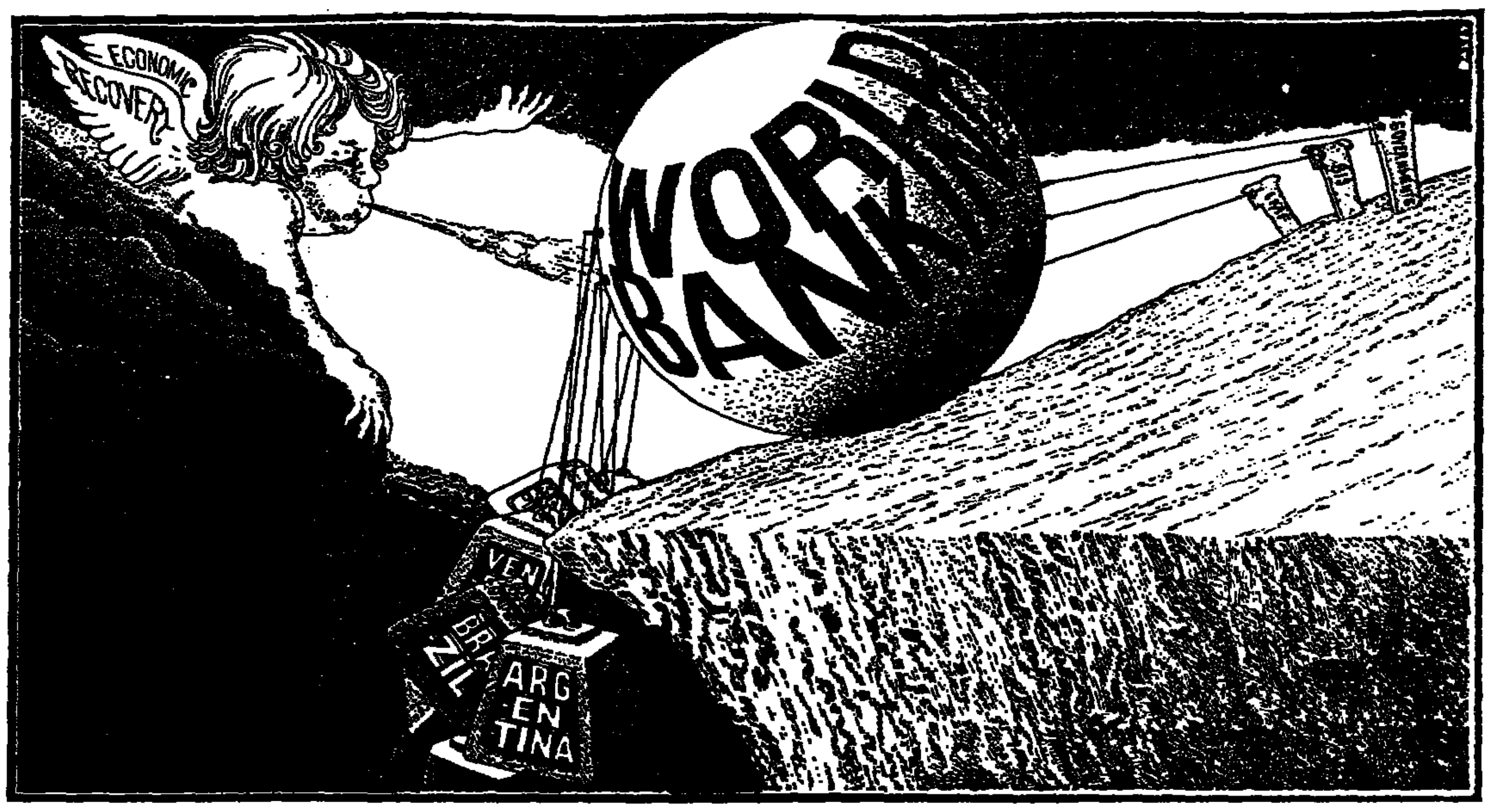
LONDON	May 6	change	NEW YORK	May 6	change
Base rates	10	Unch'd	Prime rates	10½	Unch'd
7 day interbank	10-10⅝	−⅛	Federal funds	8½-8¾	−⅛
3 mth interbank	10-10⅛	−⅛	3 mth Treasury Bills	8.02	−0.05
Treasury Bill Tender	9.5351	−0.1414	6 Mth. Treasury Bills	7.99	−0.09
Band 1 Bills	10⅛	Unch'd	3 Mth. CD	8.35	−0.05
Band 2 Bills	10	Unch'd	FRANKFURT		
Band 3 Bills	9⅞	Unch'd	Lombard	5.00	Unch'd
3 Mth. Treasury Bills	9⅞-9¾	−⅛	One Mth. Interbank	5.25	+0.075
1 Mth. Bank Bills	10⅛	[illegible]	Three month	[illegible]	[illegible]

[illegible]

FINANCIAL TIMES SURVEY

WORLD BANKING

PART ONE; Part Two will appear next Monday



The shock takes its toll

NEVER AGAIN will an international banker be able to stand up and say that "countries don't go bust." The experience of the past 12 months—where a combination of world recession, high real interest rates and impossible country debt burdens forced sovereign liquidity crises unparalleled since the 1930s—has ensured this much.

The well-publicised cases of Mexico, Brazil, Argentina, Venezuela, Chile and other major sovereign borrowers provided the global banking system with a shock which transcended the UK's secondary banking crisis of a decade ago or the collapse of the Herstatt Bank in West Germany around the same time.

By ALAN FRIEDMAN

Banking Correspondent

The greatest jolt was not necessarily the inability of these countries to service their debt normally but the related problems of the interbank system, the $1,000bn bank-to-bank deposit money market which keeps the banking business ticking over.

Only a few weeks after Mexico arranged its first moratorium on principal payments and only a few days after Mexico nationalised its banks, the spectre of a major rupture of the interbank market loomed large for commercial and central bankers.

Just as the International *Monetary Fund (IMF)* was convening in Toronto last September, a series of confused statements from Mexican Government officials suggested the country was ready to lump $6bn to $7bn of interbank deposits (cross-border loans from foreign to Mexican banks) in with its *$80bn of public and private sector debt.*

It was not the absolute size of these interbank lines which caused middle-of-the-night transatlantic and transpacific telephone conversations for these bankers. The threat was to the smooth running of the banking *system itself. Interbank lines* are the way in which banks dispose of surplus liquidity by placing deposits with other banks. A breakdown or abuse of the system could bring about a domino-effect liquidity crisis as banks scramble to pull back *their money from other banks.*

This is a central banker's nightmare and explains why strong words were exchanged in private conversations between OECD central bankers and Mexican Government officials *during the fateful week in September* when Mexico was playing cat-and-mouse with its interbank deposits.

In the end, the confusion was cleared away and Mexico withdrew any talk of freezing interbank lines. But the psychological shock has taken its toll.

According to the latest figures from the Basle-based Bank for International Settlements (BIS), interbank business in the fourth quarter of 1982 grew by $20bn, down from $49bn during the *third quarter* and less than a third of its comparable $63.5bn rate of growth during the last quarter of 1981.

There are more statistics which could be produced to demonstrate the slower growth rate of the Euromarket's international syndicated loan market, but the essential point is that many banks, particularly small U.S. regionals and Con*tinental banks, have run for* cover in recent months.

*Running for cover means pull*ing back interbank deposits from the banks of problem debtor nations and replacing the 1970s lending enthusiasm of major banks with a pronounced air of caution.

It is this contraction in lending which can be most dangerous to the banking system This is why officials of the Bank of England and other central banks have urged commercial banks not to cut interbank lines *en worse.*

This is also why the same central bankers have produced emergency piecemeal rescue *packages which include IMF* assistance, BIS bridging loans and commercial bank rescheduling and new loan packages.

It is too soon, here in the spring of 1983, to say that all the problems are over. Unquestionably, the world debt crisis has been brought under control and the situation has *stabilised*, But most of the country rescue packages have been only piecemeal, which means they could need further work.

Oil-producing debtor countries such as Mexico, Venezuela and Nigeria in particular could require several billion dollars of additional support if they are to

CONTINUED ON PAGE XX

The 1983 World Banking Survey is divided into two parts. Today's issue deals extensively with the question of the international debt crises, interbank market, global economy and related matters. It concludes with a report on banking developments in the main European countries. Part Two will move beyond the "main event" of sovereign debt problems and on to the business of retail banking, correspondent banking, treasury management, merchant banking, new technology and financial services. Finally, in Part Two, banking outside Europe is reviewed.

INDEX: PAGE TWO

Rising output in leading industrial nations is a hopeful sign, but . . .

Uncertainty clouds the medium-term outlook

The world economy

MAX WILKINSON
Economics Correspondent

A BASIC assumption behind the efforts of the International Monetary Fund (IMF) and the banks to contain the problems of the debtor countries has been that world output will recover this year.

Without a prospect of recovery it is extremely doubtful whether the delicate cardcastle of rescheduling agreements, official financing and adjustment programmes could have avoided collapse.

The adjustments required by many countries would have seemed to be politically and practically intolerable and the already fragile confidence of some of the banks could scarcely have withstood the resulting shocks.

Yet the measures which debtor countries have been obliegd to take to reduce their foreign curency needs—severe reductions in consumption and imports — have themselves caused a significant reduction in world trade and hence contributed to the world recession.

Total non-oil imports of the 12 major borrowing countries which are also oil importers fell by 9½ per cent last year, with a reduction of $15bn in imports of merchandise, to $112bn. This cut-back, which has to be set against a rapid rate of growth in the early 1970s, was not enough to prevent the total external debt of these countries from growing by 10 per cent in the year to $290bn.

A further increase in total external debt of about 10 per cent is predicted for this year by Morgan Guaranty Trust of New York, although it is generally expected that the easier price of oil and lower world interest rates will allow them to increase their non-oil imports and exports somewhat this year.

However, the external position of most of the less developed countries, including the oil exporters, does depend crucially on the extent of recovery this year. Revival of the developed economies would provide not only a firmer market for all commodities including oil but would have an important impact on prices.

For non-oil commodities, increased demand would probably result in a rise of prices from the very low levels reached at the end of last year—some 15 per cent below the average for 1981 and 27 per cent below the average for 1980.

For oil, recovery on the scale at present foreseen would be more likely to stabilise prices at or slightly below present levels than to lead to another round of increases. But for the oil-producing debtor countries like Mexico and Venezuela even stability of prices would be a relief compared with the recent sharp slide and the possibility of further collapse.

Total oil and gas exports of the nine major oil exporting debtor countries fell from $85bn in 1980 to $75bn last year, and if the average oil price settles at $28 per barrel this year, their revenues could be expected to fall to about $66bn.

Almost certainly these countries will be obliged to cut back imports further this year if they are to continue their total current account deficits to anywhere near last year's $30bn.

If for some reason the recovery of world output (which now shows signs of being led by the U.S., the UK, West Germany and Japan) were to run into the ground, the implications for the debtor countries and the major banks in the West would be bleak indeed.

This possibility cannot by any means be disregarded, particularly since hopeful signs last spring led only to a barren summer and a generally bleak autumn.

The combined output of the six major economies is estimated to have fallen by about ½ per cent last year and the UK Treasury's prediction at the time of the March Budget was for a recovery of only 1½ per cent in the current year. This was closely in line with the prediction of the Organisation for Economic Co-operation and Development (OECD) which forecast in December that its member countries' economies would grow by 1½ per cent in 1983, rising to a rate of 2½ per cent by the first half of 1984.

The overall growth rate for 1983 compared with the previous year rather understates the expected pick-up in activity, since the year started with a depressed level of output. A rate of growth of 2½ per cent to 3 per cent between the beginning and the end of the year now seems quite possible.

During March and April this year most forecasters were becoming somewhat more optimistic about the prospects for recovery in the light of a fairly strong performance by the U.S. economy, along with encouraging signs of recovery in the UK and Germany. In the first three months of the year U.S. output rose at an annual rate of 3.1 per cent, the strongest growth recorded for two years.

Orders and output have been rising in West Germany, while in the UK the evidence of recovery rests more on the greater optimism shown by industrial surveys and a buoyant trend of consumer spending than on output, although that too is somewhat higher than the very depressed levels at the end of last year.

The UK's export prospects are expected to be adversely affected by cut backs in the oil-exporting countries' imports. As a result the UK-weighted volume of world trade in manufactured products is expected to grow by only 1 per cent this year compared with a growth of about 1½ per cent overall. Nevertheless a strong growth of consumer spending, a reversal of the stocks run-down and the improved competitiveness resulting from the 10 per cent fall in sterling since November are all expected to ensure at least a moderate rate of growth for the UK economy this year.

❝The external position of most of the less developed countries depends crucially on the extent of recovery this year . . . if this were to run into the ground the implications for debtor countries and for the major banks in the West would be bleak indeed❞

ECONOMIC INDICATORS

	Real GNP/GDP % changes			Consumer prices % changes Dec.-Dec.		
	1981	1982	1983	1981	1982	1983
U.S.	1.9	−1.8	2.6	8.9	3.9	3.5
Canada	3.1	−4.8	1.0	12.1	9.3	5.5
Japan	3.8	3.0	3.2	4.4	2.4	2.0
France	0.3	1.5	0	14.0	9.7	8.5
Germany	−0.2	−1.2	0.9	6.3	4.6	2.0
UK	−2.4	1.2	2.5	12.0	5.4	7.5
Italy	−0.2	−0.3	0	19.0	16.3	15.0
Weighted average (1981 GNP weights)	1.5	−0.5	2.0	9.3	5.4	4.5

Source: Morgan Guaranty

Current account balances ($bn)

	1981	1982	1983
U.S.	5	−8	−25
Canada	−5	2	3
Japan	5	7	15
France	−5	−12	−6
Germany	−7	3	9
Italy	−9	−6	−2
UK	12	7	−2
Total	−4	−7	−8

Source: Morgan Guaranty

Prospects

The prospects for recovery of the world economy, therefore, seem quite good in the short term. But the medium-term outlook is still overhung by a pall of persistent uncertainties. The list is grimly familiar:

● Exchange rate volatility: The behaviour of sterling in April was an obvious example of the difficulties and uncertainty faced by businesses. After a fall of about 15 per cent in November the direction was abruptly reversed at Easter with a recovery of about 5 per cent.

● High real interest rates: Although nominal U.S. rates had fallen from about 12 per cent last July to a little over 8 per cent in February, rates still remain high in relation to current inflation rates which are projected to be around 3½ per cent in the U.S. this year and 4½ per cent in the seven major countries. High real rates must clearly tend to hold back the productive investment, which must form the basis of any sustained recovery.

● The U.S. Budget deficit. The prospect of rising deficits "as far as the eye can see" remain an important cause of the high U.S. interest rates and the persistent strength of the dollar, which has maintained its level despite the prospect of a rapidly increasing U.S. current account deficit. This is expected to reach around $25bn this year. A high dollar tends to raise the price of oil to importers in their own currencies since oil is priced in dollars. It also tends to inhibit the fall of interest rates elsewhere in the world.

● Fear of inflation: Although consumer price inflation in 1983 is expected to be only about half its rate in 1981, there is ample evidence that the snake is "scotched, not killed." High interest rates are themselves an indication that expectations of inflation have been slow to move to lower levels.

The major reason for this is the fear that wage bargaining behaviour has not been fundamentally altered by the deepest recession since the 1930s.

Earnings

The rise in earnings outstripped the rise of prices in most of the major countries in the last year, so that progress against inflation has been made more at the expense of profits and of world commodity prices than of wages. Further progress against inflation must therefore depend on the willingness of workers to accept zero or very small wage rises in real terms.

All these questions are overhung by a basic uncertainty about the stance of U.S. policy as the presidential election draws nearer.

An Administration which came to power with the prospectus of "sound money" and a reduction of federal government borrowing now finds itself driving a traditional "Keynesian" programme of reflation based upon deficit spending and a relaxed monetary policy. Or does it? The Federal Reserve Board has certainly pursued a much more relaxed monetary policy since last summer than seemed justified by the behaviour of the monetary aggregates, even allowing for shifts in the demand for money and other factors. But it is not clear whether the authorities will wish to allow the monetary targets to be overshot indefinitely, or indeed whether the markets will allow them to do so.

If the Fed does not sooner or later try to bring monetary growth closer to its target, the markets may start to sniff the scent of future inflation and bid up interest rates accordingly.

A similar policy dilemma faces most other countries, even the UK which has pursued a tight fiscal policy and has a relatively low government deficit.

But in the UK also the Government has to decide whether to risk stamping on the relatively weak shoots of economic recovery by continuing its tight policy stance, or whether to pursue rather more relaxed policies with the risk that inflation will once again be unchained.

IN THIS SURVEY

The world view

Countries

In Part Two

● *Editorial production of this survey was by Mike Wiltshire and Joe Hutton. Design: Philip Hunt.*

Opec countries have stepped up their borrowing from Western banks as revenue from sales has fallen

Financial flows go firmly into reverse

The oil price and oil money flows

PETER MONTAGNON
Euromarkets Correspondent

A MAJOR shift has taken place within the international financial system over the past 18 months or so. As members of the Organisation of Petroleum Exporting Countries (Opec) have swung into a cumulative current account balance of payments deficit, they have become net takers of funds from the non-communist banking system.

Gone are the days of the footloose petrodollar and the huge "recycling" problem that plagued the financial world for much of the 1970s. Last year, according to the Basle-based Bank for International Settlements, identified Opec deposits at International banks fell to $135.2bn from $157.7bn at the end of 1981.

These withdrawals accelerated throughout the year, reaching $7.9bn in the final quarter, the bank says. As the oil price continues to weaken in early 1983, expectations are that the trend will continue.

On the other side of the balance sheet, Opec countries have also increasingly turned to banks for borrowed funds. Their total borrowings outstanding rose last year to $78.6bn from $72.1bn at the end of 1981.

Some member countries, such as Indonesia, have visibly stepped up their borrowing activity in the Eurocredit market. Others such as Nigeria, Venezuela and Ecuador have succumbed to serious debt problems with rescheduling negotiations looming or already under way. And of course Mexico, which is a large oil exporter, but not a member of Opec, was the first major international borrower to launch a rescheduling plan when it declared itself unable to go on meeting debt repayments last August.

Emphasis placed on these reschedulings by the world's media has led to the impression that the fall in oil prices has had a profoundly destabilising effect on the world's financial system. Among frequently expressed worries are that:

- A further decline in oil prices will undermine the fragile finances of borrower countries and bring new debt problems in its train, thereby further weakening confidence in the international banking system.
- As Opec countries are no longer major suppliers of funds to the banking system international liquidity will dry up, putting great strain even on countries which are not oil exporters, but still have to borrow in international markets.
- Opec governments, such as Saudi Arabia, which have traditionally been large buyers of U.S. government securities, will start to run down their holdings. This will make it harder to finance the U.S. budget deficit and could keep interest rates higher than otherwise needed as inflation falls.
- A sharp fall in oil prices will bring new instability to currency markets as investors move out of petrocurrencies, notably sterling.

Yet this type of gloom and doom scenario betrays the innate conservatism of the banking community which initially tends to regard all change as being for the worse. It is worth remembering the way in which disaster forecasts were trotted out as oil prices rose. Then as now the system proved more resilient than expected.

The extra debt problems incurred by oil-exporting countries, as a result of the falling price, are offset by large benefits to the majority of developing countries which are oil importers.

While the BIS figures do show a major change in the direction of financial flows as a result of the falling oil price, events so far suggest that financial markets can accommodate this change so long as it proceeds at a relatively even pace. On balance many economists believe that the fall in oil prices must be good for the world economy as a whole.

Take, for example, American Express Bank which recently produced a study on the impact of the second oil "shock" on the finances of non-oil exporting developing countries. Amex reckons that eight major oil importers in this category (Brazil, Colombia, South Korea, Chile, Thailand, Ivory Coast, Philippines and Turkey) would have saved $32bn between 1979 and 1982 if oil prices had not increased during that period.

If interest costs are added in to the extra borrowing needed to finance the increased oil bill the total cost to these eight countries was $45bn. Amex reckons. For them, the second oil shock has proved far more expensive than the high interest rates they were having to pay on their foreign debt during the same period.

Similarly, Amex has also calculated the savings to these countries each year and for every $5 fall in the price of a barrel of oil. Brazil comes out the winner in this respect with a saving of $1.73bn, followed by South Korea with $940m, Turkey with $570m Thailand with $320m and the Philippines with $305m. Chile, Colombia and the Ivory Coast save $125m, $70m and $55m apiece, Amex says.

From this it follows that the extra debt problems incurred by oil exporting countries as a result of the falling price are offset by large benefits to the majority of developing countries which are oil importers.

Nor does the loss of Opec deposits appear to have significantly affected liquidity in the international banking system. BIS figures suggest that for some time now the U.S. has displaced Opec as a major supplier of funds to the banks. And a study published this January by Bankers Trust that draws on the BIS figures shows that Opec deposits have never made up a particularly large portion of the Eurocurrency market.

Between 1974 and the middle of last year, Bankers Trust says, Opec's gross deposits in the euromarket rose from $33.5bn $131.9bn, but during the same period the total eurodeposit market grew to $1,541.6bn from $358.1bn. Only rarely did Opec's share of the market exceed ten per cent and then only by a very small margin.

"The data would indicate that Opec's impact is often overstated," Bankers Trust concludes. "Opec will not be as great a source of instability in the eurocurrency deposit market, as frequently feared.

"The expected slowdown in growth of deposits by the low (import) absorbers is only one component of the generally slower growth expected over the next few years for the eurocurrency market as a whole."

Meanwhile, figures produced by the U.S. Securities Industry Association suggest that Opec countries in any case play a relatively small part in the U.S. Treasury Bill market. Holdings of Treasury Bills by all foreigners last year grew by $17.3bn to $33.5bn which shows that they were financing only a small part of the budget deficit. Among the foreigners West Germany was one of the largest buyers with net purchases rising to $5.3bn from $1.1bn in 1981.

Saudi Arabia is, on the other hand, planning its first budget deficit in more than a decade. The deficit of riyals 35bn (£6.6bn) will be funded by drawing on the government's assets held abroad which are at least $140bn, but even if all this money was withdrawn from the U.S. Treasury Bill market it is hard to see much impact on the market as a whole.

In addition, says Mr Roger Azar, a prominent financial consultant, many Middle Eastern oil exporting countries have recently found themselves in a situation where they need to draw on cash fairly quickly. This has given a certain premium to liquid investments (such as bank deposits and Treasury Bills).

"The view of those who want a higher return for less liquidity, or who wanted to invest a larger proportion of their assets in equity-related instruments and real estate, has proven to be less effective than that of the 'liquidity fans.'

"The same holds true of those that were pushing for currency diversification against 'the dollar unconditionals' since non-dollar denominated instruments turned out to be less liquid than dollar denominated instruments."

In short, says Mr Azar, the oil price fall will make Opec investors less anxious to experiment. And, where money does have to be invested, it is more likely to go into safe and liquid dollar-based instruments.

Gone are the days when newspapers would calculate how many days' worth of Opec oil revenues would be needed to buy all of IBM (210 days) or every acre of farmland in the state of Iowa (374 days), he adds.

A new and unwelcome role in debt rescheduling

International interbank money markets

ALAN FRIEDMAN

THE $1,000bn interbank market—through which banks place surplus deposits with other banks—is probably the most sensitive mechanism in the international banking system.

Until recently, this major market was rarely discussed except among banking professionals. But since Mexico's insolvency of last August and the attendant debt crises of other Latin American borrower countries, the interbank market has become front-page news.

This is because of the serious abuse of the interbank market by a number of banks and the withdrawal of very short term interbank credit lines by banks which have "run for cover."

In normal times the interbank market is the vital lubricant which prevents the entire world banking system from seizing up. It is more than 10 times the size of the international syndicated loan market and can see a daily turnover of tens of billions of dollars.

In simple terms, the interbank market is the means by which banks are able to dispose temporarily of excess liquidity by placing the extra funds on deposit with other banks. Such bank-to-bank deposits can be as short-term as one day and can range up to one year.

The value of the interbank system for banks is twofold: it allows for the smooth functioning of the banking system by providing the machinery for the placement of surplus funds and it helps banks to balance short-term assets and liabilities.

Abuse of the interbank system therefore can lead to wide-ranging problems. The system is not, for example, designed to help countries to finance their balance of payment problems. Yet there is evidence of debtor countries having made use of the system for precisely this purpose.

Last year, it appears that debtor countries, such as Brazil and Mexico, allowed the foreign branches of their banks to push the interbank markets in New York and London as much as they could, obtaining as many deposits as possible. But when the Mexican debt crisis began, the first instinct of many banks with interbank lines out was to pull back by not renewing such lines.

Faced with the potential debt rescheduling problems of a number of debtor nations, banks around the world sought to reduce their exposure to these countries as quickly as they could. The easiest way to achieve this is to cut interbank deposit lines, which may run for periods as brief as 30 days. At the end of this period the lending bank can simply refuse to "roll-over" the line and may demand the funds instead.

Within just a few months Brazilian banks lost more than $4bn in interbank deposits, adding seriously to the country's worsening foreign exchange liquidity problem. Such behaviour on the part of banks is not unprecedented—in 1981 Poland's Foreign Trade Bank, Bank Handlowy, lost around $500m in a few weeks. Last year the Hungarian National Bank lost more than $1bn of interbank deposits in the first quarter.

The interbank market—used by banks to lend to each other their surplus liquidity—has moved from obscurity to centre stage in the world debt crisis

In an interview with the Financial Times two months ago, Mr Willard Butcher, chairman of Chase Manhattan, accused a number of banks of having "misused" the interbank system.

Mr Butcher said the interbank system remained unhealthy . . . "I think when you see banks pull away from a major country, in a very short time, very substantial amounts of money, that can't be healthy," he said.

Mr Butcher admitted that "some banks have clearly created some of the problem" by withdrawing short-term lines. One of the dangers of the interbank market was that it is very easy to "get into." The problems had arisen as banks panicked and attempted to pull back their interbank deposits.

"No one is going to get out of the door all at once. That results in a liquidity crisis. That's what brings the system to a halt," remarked Mr Butcher.

One result of the international debt crisis has been the evolution of a more discriminatory approach to interbank lines. Gone are the days when, in the words of one dealer, "we were tossing out interbank lines to every Tom, Dick and Harry bank."

Instead, the interest margins over interbank rates has been rising and only the best bank names can offer to pay a spread of as little as ⅛ per cent. Brazil was willing to pay for the restoration of its interbank lines with a rate of 1 per cent over eurocurrency rates, an exceptionally high margin but still not sufficient to coax all the banks to return.

Meanwhile, senior bankers in London say that the interbank market has not only become more discriminating but has also been contracting somewhat. All of this presents something of a paradox for central bank authorities.

On the one hand the central bankers would like to see the trend of greater discrimination continuing; it is more responsible and should make for less abuse in the system.

At the same time, however, the central banks must keep on urging the banking community not to reduce its lending by too much. Liquidity is vital for the maintenance of the system and for the funding of any economic recovery.

The interbank system is now far more than just the lubricant which helps to keep the banking system ticking over. It is also an essential ingredient in several major debt rescheduling exercises. Banks are being asked not only to maintain lines to debtor country banks, but also to restore lines which they may have withdrawn previously.

This demand, which can be necessary to keep a debtor from suffering a liquidity crisis, is viewed by some small banks as "strong arming."

Thus, a number of bankers will cringe at rescheduling meetings where the debtor country's finance minister pleads with his creditor banks: "Gentlemen, you must help us by restoring $2bn of interbank lines."

When one considers that the philosophy of the interbank market is one of flexibility and voluntary lending, it is not hard to see why bankers wince at pressure from central bankers and debtor countries. One senior banker sums up the problem this way: "Demanding that we restore interbank lines which we have already withdrawn amounts to a subversion of the workings of the entire system."

Subversion it may be, but most bankers acknowledge the necessity for such restorations. The degree to which they co-operate in maintaining such lines will be crucial to the success of the banking community in dealing with debtor problems and global liquidity.

Mexico, Brazil and Argentina give the international banking community some complex problems

Rescue packages head off disaster

The problem countries

PETER MONTAGNON

THE INTERNATIONAL debt crisis has had a profound effect on the life of many a banker. As the Eurocredit market has dried up, in its wake many of those bankers whose job is to put together new loans have found themselves with time on their hands.

Some of their country specialist colleagues have by contrast emerged from the back room to work on packages designed to get their bank's money back. For these officials life has become a long round of meeting after meeting as complex rescue packages are slowly pieced together. Meanwhile the International Monetary Fund (IMF) has been working overtime to assemble detailed economic stabilisation programmes with the worst affected borrower governments.

New money

Almost all the rescue packages worked out to date have several strands in common. First is an IMF package setting out policy targets that will in time restore the borrower's balance of payments to a sustainable level. Second is a rescheduling of debt owed to commercial banks.

Third is a new money facility to finance the residual balance of payments deficit, since it is generally accepted that the large payments deficits built up by developing countries over the past few years cannot be wiped out immediately.

So far the packages put together along these basic lines have succeeded in containing a situation that could easily have turned into disaster. No major borrower has yet rejected the terms imposed by the IMF; none has failed to come to terms with its banks, although there have been some very nervous moments along the way and, among the major debtors, some very large issues remain unsettled between Argentina and her commercial bank creditors.

But as the immediate nervousness subsides there is still an abiding realisation that the solutions to the debt problems reached so far offer little more than a temporary palliative. What is now required is a decisive recovery in world trade that will allow hard-pressed debtors to boost their exports to a level that will assure creditors of their ability to service debt over the medium term.

Just how have the problems been tackled and what remains to be done? This article aims to examine the treatment of the debt problems of the three largest borrowers in Latin America.

Mexico—With debt of around $80bn Mexico is the second largest debtor in the developing world. It was the first to abandon the increasingly hopeless struggle to service its debts normally when on August 20 last year its Finance Minister, Sr Jesus Silva Herzog, announced a moratorium on repayment of debts to commercial banks pending a permanent rescheduling.

Although the Mexican move came as no surprise to the banking community it still caused consternation because of the potential impact on leading banks which had a large portion of their capital and reserves tied up in that country. As a result an immediate rescue package was put into operation to provide a quick cash injection that would at least allow Mexico to continue paying interest on its debts while the problems were sorted out.

This included loans worth $2bn from the U.S. as well as a $1.85bn short-term bridging facility from the Bank for International Settlements (BIS) in Basle. Meanwhile the Mexican Government sat down to the arduous task of working out a programme with IMF, which is now committed to lending it some $3.9bn.

The new money from the commercial banks totalling $5bn only came later—in March last. At the time of writing Mexico still has to agree the final conditions for the rescheduling of commercial bank debt totalling $19.7bn but it has secured new export credits of some $2bn to help bolster its finances in 1983.

The Mexican case was the first in which two of the most delicate issues in international rescheduling were raised, namely those of private sector debt and interbank lines.

Mexico had been using its own commercial banks to tap the interbank deposit market as one means of financing its widening balance of payments deficit. When the moratorium was imposed, international interbank lines to Mexican banks stood at around $6bn. The Mexicans requested that these lines should be included in the rescheduling arrangements. But they were forced to withdraw the request when the authorities in leading financial centres realised that this would cause havoc in the market for interbank deposits. This market provides the lifeblood for international capital market flows.

At the time Mexico's efforts to override normal practice in the interbank market served to heighten considerably the tension surrounding its debt problem.

As the immediate nervousness subsides, there is an abiding realisation that the resolution to the debt problems reached so far, offers little other than a temporary palliative

The question of private sector debt has, however, proved to be a more lasting and intractable problem.

Private sector Mexican companies owe foreign banks some $14bn. Since the debt crisis broke, bringing with it a precipitous devaluation of the Mexican peso, these companies have experienced acute difficulty servicing their debt. Now the Mexicans have introduced a scheme whereby companies will be able to make what are effectively forward purchases of dollars to repay rescheduled debt. The authorities are also guaranteeing the availability of U.S. currency for interest payments.

Creditor banks have accepted the scheme with some reluctance as it is designed to allow them to minimise their losses on private sector lending. None the less some companies will be unable to find the pesos needed to satisfy their part of the scheme and their ensuing bankruptcy is likely to lead to at least some losses in the international banking community on Mexican private sector debt. This is particularly true in the case of the bankrupt Alfa conglomerate with foreign debts of $2.3bn.

Brazil. This country's debt of $84bn is somewhat larger than that of Mexico but its problems really started when Mexico's debt crisis effectively closed the capital market to all countries in Latin America.

Last December its central bank President Carlos Langoni unveiled a complex rescue scheme that differed from Mexico's in several important respects. As with Mexico there was to be an IMF programme bringing in some $6bn of new loans, a commercial bank rescheduling of debt falling due this year amounting to $4.6bn and a new money facility from commercial banks of $4.4bn. But Brazil's creditors were also asked to maintain short-term trade credits at a level of $8.8bn and restore interbank lines to Brazilian banks to the level pertaining at the end of June 1982. Brazil also negotiated a $1.45bn bridging loan from the BIS and Saudi Arabia.

The Brazilian package received less direct support from the IMF than the Mexican package, because Brazil's problems were considered less acute. But the package is generally regarded as having been less successful.

Worries

The main problem has been the reluctance of banks to restore the interbank lines cut as the extent of Brazil's problems became apparent. In February Brazil accepted an interim target of $7.5bn for these lines compared with an original target of some $8.6bn. But this figure was never fully reached and recently there have again been signs of the lines slipping below $7bn.

The most successful part of Brazil's package was the request for short-term trade credits to be maintained at $8.8bn. This in fact was oversubscribed, with commitments totalling $10.3bn. Brazil has, however, been unable to use the commitments fully because of a sharp fall in its imports.

Despite a sharp improvement in its trade surplus, which was a record $514m in March, Brazil's foreign exchange liquidity position has thus remained acutely tight. Several bankers began to worry by mid-April that it would need to adjust the rescue package to overcome this problem. This might involve a request for *additional medium-term loan*. They were also afraid that smaller international banks could perceive such a request as a failure of the initial rescue package, which could lead to a renewed loss of confidence in the system.

Already, however, several lessons have been learned from Brazil's experience. Subsequent rescue packages for countries such as Chile, Uruguay and Cuba are to be treated differently where short-term credit lines are concerned.

Argentina. Despite its large foreign debt of $39bn, Argentina ought not to be in economic difficulties. It is virtually self-sufficient in energy and a major exporter of food, with a natural capacity to run a large surplus on its trade account. Poor management of the economy and foreign debt over recent years—including a propensity to run up large amounts of short-term debt—have left its external finances in a highly precarious position.

This has been compounded by the deteriorating domestic political position and the invasion of the Falkland Islands in April last year. Following the Falklands crisis Argentina was effectively excluded from the world's capital markets and therefore unable to refinance short-term debt.

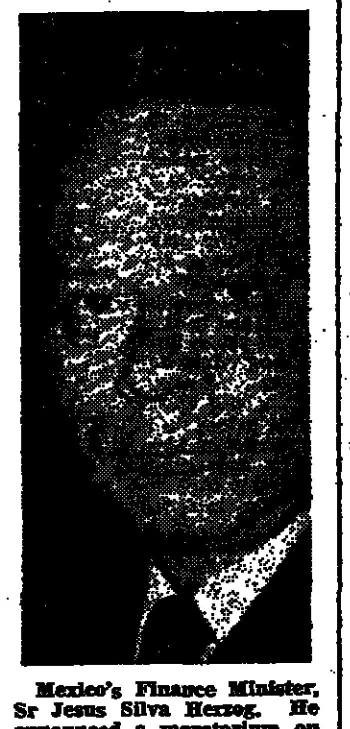
First steps towards resolving the problem were taken last September when Argentina decided to lift financial sanctions against Britain. (Commercial sanctions affecting trade were left in place.) This allowed work to start on an elaborate rescue programme involving the IMF and commercial banks as well as the BIS.

Argentina agreed an IMF programme designed to provide it with $2.1bn as well as a bridging loan from commercial banks of $1.1bn. Currently it is still negotiating a medium-term loan from the banks of $1.5bn and a rescheduling of some $6bn of public sector debt. It has also arranged, but not drawn on, a $500m credit from the BIS.

The negotiations have been dogged by delays in bringing public sector interest payments up to date, as well as disputes with the commercial banks over the treatment of private sector debt. In the background are fears that Argentina will not be able to stick to the terms of its IMF programme, while the prospects for elections later this year and the ambivalent attitude of some political factions towards the foreign debt have led to fears that Argentina might one day decide to repudiate its debt.

Few bankers take such suggestions seriously but Argentina's potential self-sufficiency in key raw materials means that it is one of the few major debtor countries that could successfully sever its connections with the outside world, at least temporarily.

For this reason Argentina's debt problems continue to cause some nervousness in the banking community, despite current projections that by next year it will be running a current account payments surplus again after a deficit of only $950m in 1983.



Mexico's Finance Minister, Sr Jesus Silva Herzog. He announced a moratorium on repayment of debts to commercial banks, pending a permanent rescheduling.

● THE BANKING SYSTEM is strengthening its defences to try to prevent further shocks of the kind it has experienced over the past 18 months. The central banks are revising the procedures by which they regulate the commercial banks, while the commercial banks themselves are looking at their own much-criticised bad debt provisioning policies. They are also developing better intelligence systems to alert them to world economic developments.

Rethink by the central banks

THE PROBLEMS in international banking over the past year have focused attention on central banks to a greater extent than ever. Two main trends have been clearly discernible as a result:

● Central banks have become involved directly in a variety of debtor country rescue packages, both individually and through the joint mechanism of the Basle-based Bank for International Settlements (BIS).

● Central bank supervisors, acting through the Group of 10 "Cooke Committee" at the BIS, have been labouring to revise an international banking supervisory code.

Since last August's Mexican debt crisis, central bankers at the U.S. Federal Reserve Board, the Bank of England, Bundesbank, Swiss National Bank and elsewhere have taken a direct role in maintaining the liquidity of key debtor nations. The Fed, under the leadership of Mr Paul Volcker, has provided funds to Mexico and other countries and has also co-operated with other central banks in putting together BIS bridging loans.

Normally the BIS prefers to avoid the glare of publicity, but its members have in recent months approved loans for Mexico, Brazil, Hungary and other countries. It is not the absolute size of these temporary loans which is striking, but the fact the central banks have found it necessary to extend them.

The BIS has been thrust to centre-stage along with the International Monetary Fund and commercial banks in what Mr Robin Leigh-Pemberton, incoming Bank of England Governor, terms a "tripartite approach."

It is the view of Mr Leigh-Pemberton and others that only through this joint approach can the world's debt problems be kept under control. Few bankers, however, expect the BIS to maintain its uncharacteristically high profile once the debt problems subside.

The other priority for central bank supervisors who meet in Basle under the chairmanship of the Bank of England's Mr Peter Cooke (the Cooke Committee) has been to work on revising the landmark Basle Concordat of 1975. This was the agreement constructed in 1974-1975 in the wake of the collapse of the Herstatt Bank in West Germany. It remains to date the only full-scale formal agreement on international banking supervision.

The collapse of Italy's Banco Ambrosiano last year showed gaps in the Concordat, particularly on the question of which supervisory authority is responsible for the overseas subsidiaries, holding companies or joint ventures of banking groups.

Harsh words have been spoken privately by central bankers about the Bank of Italy's failure to play a major role in the collapse of Ambrosiano's Luxembourg holding company—Banco Ambrosiano Holdings (BAH).

BAH was also believed to have been left unsupervised by Luxembourg's authorities, who maintained it was a company and not an official bank.

BAH defaulted on $300m to $400m of Euromarket syndicated loans and more than 80 banks are now involved in legal action against the Italian successor bank to Ambrosiano—Nuovo Banco Ambrosiano.

The revised Basle Concordat, which may be published later this year, does not provide any "lender of last resort" guarantees, but rather clarifies the issue of host country supervision. Where there is a question of bank solvency, supervision would be the responsibility of the central bank of the parent bank.

Alan Friedman

Strict conditions for the extension of bridging loans

BIS is not an 'easy touch'

Bank for International Settlements

PETER MONTAGNON

THE DEBT crisis that has enveloped most of Latin America and Eastern Europe over the past year has brought with it some rather unwelcome publicity for the traditionally shy central banks of industrialised countries.

Acting through their own bank, the Basle-based Bank for International Settlements (BIS), they have become intimately involved in rescue arrangements for several countries. Short-term credits totalling $810m have been extended to Hungary, $1.85bn to Mexico, $500m each to Argentina and Yugoslavia and $1.2bn to Brazil. This latter credit was topped up by an additional $250m contribution from Saudi Arabia.

Superficially the principles behind such credits make perfect sense. Countries which suddenly find themselves acutely short of foreign exchange need time to organise more permanent assistance in the form of debt rescheduling and a loan package from the International Monetary Fund. In the meantime they have to have the resources to continue making interest payments on their foreign debt and to purchase essential imports.

Short notice

The BIS and its shareholder central banks are able to mobilise large amounts of cash at short notice. For a while it seemed likely that they would assume a permanent role as providers of bridging finance until longer term solutions were put in place. The queues of potential borrowers, and with it the glare of publicity, grew and grew until in January BIS President Fritz Leutwiler signalled an end to such participation in rescue operations.

Why has the BIS decided to opt out of this newly assigned role? In the first place the enthusiasm for bridging loans widely displayed in the financial community at large was never shared by the central banking community itself. Central banks of their very nature tend to have rather small balance sheets and they need to keep them highly liquid. Even with such an urgent case as Mexico last summer several were reluctant to tie up precious funds in a rescue operation. As the number of countries clamouring for loans increased several central bankers began to fear that the BIS was becoming regarded as a bottomless crock of money, an "easy touch" for short-term loans on highly favourable terms.

In fact this was never the case. The BIS always laid down very strict conditions for the extension of bridging loans. They had to be short-term, properly secured against the borrower's assets — preferably gold—and linked to progress in negotiations between the borrower and the International Monetary Fund. The BIS expected to be repaid out of loans eventually made available by the IMF.

This was not readily understood by some would-be borrowers, notably Yugoslavia, which made a controversial request for a three-year loan from the BIS last autumn. This request in this form was turned down flat by the BIS, although it is now participating in a short term $500m loan as part of the multi-billion dollar rescue package for Yugoslavia being assembled under the aegis of IMF.

Refusal

It was partly the publicity surrounding Yugoslavia's loan request that led the BIS and its shareholder central banks to review the role they could play in assisting the worst-off international debtors. After a brief spell in the limelight the central banks now seem to have brought the shutters down again. The clear message has been that the central banks alone cannot solve the banking crisis by bailing out the borrowers.

More recent candidates for debt refinancing such as Peru and Venezuela have simply not applied to the BIS for money. They know that it would not be forthcoming. Even if the BIS had not now adopted a more restrictive policy towards lending there would in any case be few compelling arguments for credits to such countries.

With hindsight it is clear that those countries that have received BIS loans were all in their own way special cases. Mexico, Brazil and Argentina rank among the world's largest debtors, with total debts respectively of $80bn, $84bn and $39bn. A default by any single one could destabilise the whole banking system. The central banks came under strong political pressure to assist Yugoslavia as a non-aligned country bordering the Comecon bloc.

In the case of Hungary the BIS was making a deliberate attempt to pre-empt a spread of the Polish and Romanian debt problems to the whole of Eastern Europe. It was largely successful. Within a few months of BIS assistance Hungary received a $260m loan from a group of commercial banks co-ordinated by Manufacturers Hanover.

It is always possible that faced with similar special cases again the BIS might be prevailed on to extend fresh credits, though even that now seems unlikely at the moment. After a brief flirtation with direct lending to borrowers in trouble the BIS has retreated into a different role in the international debt crisis, concentrating, for example, on acting as a forum for international discussion on bank supervision and the responsibilities of individual central banks for commercial banks that may get into trouble.

Loans to borrowing countries do not seem to offer a practical contribution towards solving the world's debt problems. As before they are likely to remain the exception rather than the rule.

Progress of the new information gathering centre in Washington will be followed with interest by the sceptics

Search for the right man as leader

The Ditchley Institute

WILLIAM HALL
New York

THE INSTITUTE of International Finance, better known as the Ditchley Institute, is an ambitious private sector initiative whose main purpose is to provide better information to international banks about the economic state of the world's debtor countries.

The idea for the institute was born out of a meeting of senior bankers last year at Ditchley Park in Britain's county of Surrey — *hence the name* Ditchley institute. The bankers, representing institutions from North America, Europe, Japan and Latin America, felt that banks would be better equipped to deal with the international banking crisis if they had better information about the economic situation and evolving debt position of borrower countries.

In January 1983 the same bankers met again in Washington and decided to establish formally a new Washington-based institute "to promote a better understanding of international lending transactions by improving the availability and quality of financial and economic information of major country borrowers."

Founders

The 35 founder banks included 10 U.S. money centre banks, the big four UK clearing banks, the three big Swiss banks, three out of the top four German banks plus leading banks from Italy, France, Canada, Japan and Brazil.

The banks involved held another meeting in Zurich in March to work out the details; another meeting is scheduled for Tokyo in June when a managing director to head the new body will be announced. It is hoped that over 500 banks will become members.

Bill Ogden, who retired as vice-chairman of Chase Manhattan Bank earlier this year, has been the key figure behind the scenes in drumming up support for the new body. He is anxious to assure worried borrowers that the new institute is not going to be a discreetly disguised "lenders' cartel" which will be used to bring pressure to bear on recalcitrant borrowers.

Its prime purpose, in Ogden's words, is to "improve the process of sovereign risk lending and the long-term efficiency of the national credit markets." Its main functions are as follows:

- It will collect country economic information. It will not duplicate what is already being done but will look for gaps in existing information and seek ways to fill them;
- It will discuss with borrower countries, on a strictly voluntary basis, *their economic plans*, assumptions and financing needs;
- When and where appropriate it will serve as a focal point for dialogue between the international banking community and multilateral institutions, central banks and supervisory authorities in the developed countries;
- It will furnish members with country information reports. These will be objective and will avoid making credit judgments — which will be left to each member bank.

Bill Ogden says that the institute's planned activities "should tend to dampen excessive zeal — and even excessive caution, which at certain times can prove just as harmful.

"The institute will trigger in each member neither red nor green lights, but more probably yellow precautionary signals and better adherence to speed limits," says Ogden.

Although the new body is still in its infancy it has received surprisingly wide support from both central banks and commercial banks although there are still one or two major banks, particularly in Continental Europe, which are sceptical about the need for such an initiative.

Peter Cooke, the Bank of England man who heads the Basle Committee of Banking Supervisors, calls the new institute a "useful development."

"It may help to improve contacts between commercial banks and the IMF. This will be valuable from the point of view of the latter, for it must be desirable that it should have good knowledge of the amount of private financing both outstanding and likely to be available when devising programmes for countries in balance of payments difficulties," says Cooke.

He also notes that it will be useful for commercial banks. "Their lending plainly needs to pay more regard to how far the borrowing countries are committed to soundly conceived adjustment programmes likely to sustain or restore the credibility of these countries in international markets."

Membership of the new body is open to a wide variety of *institutions and is not confined* to commercial banks. Anyone can join provided they meet the following criteria: they must be lenders for their own account and not just packagers of risk for sale to others; they must have defined international exposure to developing countries; they must be in business for profit.

Membership

Membership fees are still under discussion but Bill Ogden, who is chairman of the interim board of the new institute, estimates that some small international bank with an international exposure of between $1bn and $2bn could join the institute for as little as $7,000 a year. For medium-sized banks the cost will be between $10,000 and $15,000 a year and the big banks will pay around $100,000 a year.

It is anticipated that the new institute will have a staff of 75 to 80 and that the chief executive will be a well-known figure who will command a salary of around $250,000 a year.

Finding the top man to run the new institute is proving harder than first thought and Bill Ogden has said on several occasions that he is not a candidate himself. Ogden's ideal candidate would be a "very broad guage individual, who will be more than a technician with a knowledge of international finance and have an understanding of economics and banking." In addition he will have to be a considerable *diplomat*.

Kit McMahon, Deputy Governor of the Bank of England, has been mentioned as a possibility by some bankers. However, it would be very surprising if he took the job. Another name which has been canvassed frequently is that of Manfred Lahnstein. Another possible candidate is Schulmann.

Aside from finding the right person with the correct qualification picking a person with a political background might upset some bankers whilst a North American is ruled out since the creators of the institute are anxious that it is not seen to be the creature of the big U.S. money centre bank.

Indeed one of the problems in finding an influential figure to head the new body—an important prerequisite if it is to be taken seriously—is that several people are not sure that there is a viable long-term role for the new institute.

"We are much clearer on knowing what this body will not do rather than what it will do," is a frequent comment of bankers.

The Ditchley Institute has built up a momentum of its own which says a lot for Bill Ogden's work behind the scenes. The problem is that it has built expectations to such an extent that it may find it hard to deliver the goods when it begins operating. The key to its success will be the choice of managing director.

Mr Bill Ogden, left, who retired as vice-chairman of Chase Manhattan Bank earlier this year, has been a key figure in drumming up support for the Ditchley Institute. Mr Peter Cooke (centre), of the Bank of England, calls the institute a "useful development." Mr Kit McMahon, Deputy Governor of the Bank of England (right)—a possible top man to run the institute.

Criticism of their policy on bad debt provisions has irked a number of top banks. The trouble is that not much detail is made available

Scant information on the degree of exposure

Bad debt provisioning policies

ALAN FRIEDMAN

PERHAPS no other part of the 1982 accounts of major international banks will have been as closely examined as the section dealing with "provisions for bad and doubtful debts." In the wake of the international debt crisis the question of provisioning has moved from the obscurity of accounting practices to centre-stage in banking circles.

Criticism of a number of banks, particularly in the U.S., has been swift and harsh. Major institutions such as Chase Manhattan, Bank America, Citicorp and others stand accused by analysts and others of not having made sufficient 1982 bad debt provisions in respect of problem debtor nations such as Mexico and Brazil.

Although the U.S. Securities and Exchange Commission (SEC) has tightened considerably the disclosure requirements of the U.S. banks, they have none the less succeeded in providing only cursory information about problem exposure in Latin America and elsewhere. Now the U.S. Congress is taking a more active interest in the overseas lending and provisioning activities of the banks and many staffers on Capitol Hill predict legislation calling for even tighter regulations in this area.

The provisioning policies of the U.S. banks can be all-important when one calculates that the potential problem exposure of a bank like Citicorp, America's largest in terms of assets ($130bn), represents 204 per cent of its group equity base of $4.8bn.

Defining exactly which are problem loans, however, can be a difficult proposition. The American Banker magazine recently claimed that the largest 10 U.S. bank holding companies had investments amounting to 169 per cent of their shareholders' equity in problem debtor countries. The American Banker also argued that three of the top ten banks—Chase Manhattan, Citicorp and Manufacturers Hanover—had amounts that total more than twice their equity outstanding to countries facing serious liquidity problems.

American bankers do not like being told that they have made insufficient bad debt provisions in respect of country risk. Mr Willard Butcher, chairman of Chase Manhattan, took "grave exception" to a suggestion during a recent interview that his bank had not made adequate provisions on Mexican loan exposure; but many analysts feel the U.S. banks are not facing up to the reality of loan assets which could be caught up in debt rescheduling for years to come.

The bankers argue that as long as interest payments come through they need not worry. Indeed they are making fat returns on the rescheduled principal, with interest spreads above 2 per cent for some Latin American countries. This does not alter the fact, however, that the principal, which might have been returned to the bank, is now tied up. The ultimate effect of the debt crisis is that it restricts the freedom—that is, the discretionary power to make loans where they choose—of banks. "We are all locked in and there is nothing we can do about it," remarked one senior U.S. banker recently.

If the U.S. banks, with the *stringent SEC regulations* applying are being accused of less than prudent provisioning policies, then some European banks are open to even more serious charges. Disclosure requirements outside of the U.S. tend to be far more lax and this enables a British clearing bank, for example, to thumb its nose at any demand for more information about problem exposure.

"... this enables a British clearing bank, for example, to thumb its nose at any demand for more information about problem exposure."

Lloyds Bank refuses to disclose its estimate of problem exposure, saying only that 10 per cent of its £34.5bn of assets is tied up in Latin America—and this excludes Mexico by its own admision. Barclays Bank is revealing even less.

The 1982 bad debt provisions of the Big Four British clearing banks speaks for itself however; total bad debt provisions among Barclays, Natwest, Midland and Lloyds were more than doubled in 1982, to a total of £962.3m (from £381.3m in 1981).

National Westminster and Midland Bank were more forthcoming than Barclays and Lloyds in their 1982 results. Natwest revealed that less than 4 per cent of its total assets of £54.5bn represented problem loan exposure, while Midland said that 7 to 8 per cent of its £48bn asset total was in this category. By means of extrapolation one can ascertain that in Natwest's case the problem loan exposure amounts to 86 per cent of its £2.55bn equity base, while the figure for Midland is between 218 and 244 per cent of its £1.56bn equity base.

In West Germany the provisioning policies of the major banks are even more shrouded in mystery. The disclosure practices of Deutsche Bank, Dresdner and Commerzbank, for example, make it well-nigh impossible to draw any sensible conclusions.

In Japan the authorities have stepped in to instruct the banks (or as the Japanese would phrase it—to "provide advice and suggestions") on their provisioning policies in respect of sovereign debt. The total outstanding overseas loans of Japanese banks last June (the latest figures revealed) was $92bn. The Finance Ministry in Tokyo has told banks they may use after-tax profit to allocate reserves equal to 1 to 5 per cent of their sovereign loans to specific countries with high-risk loans.

The guidance from central bankers in some countries can be *ostentatiously ignored* at times. Mr Peter Cooke, head of banking supervision at the Bank of England, last autumn urged banks to "consider the approriateness of the maximum possible retention of profit to reinforce the capital resources of the bank, if necessary at the expense of excessively liberal distribution policies." It is hard to imagine a more pointed message to British banks to place some controls on their 1982 dividend policies.

The reaction of the UK clearer, however, showed a blatant "it's nothing to do with me, mate" attitude. While it can be argued that the banks need to make sufficient dividend increases to keep their shareholders' equity base healthy, this was not the answer given by Barclays and other banks when queried about dividend rises for 1982. The answer instead (from Barclays and others) was that the Cooke speech had not been intended for the UK clearers.

A high-powered team maintains a long-term analysis of economic problems

Elite body for global studies

The Group of 30

WILLIAM HALL

IT IS hard to judge the long-term importance of the Group of 30 — a bunch of central bankers, private bankers, academics plus industrialists! But it is clear that its work over the past couple of years has contributed to better official and private understanding of the international debt crisis.

Over three years ago Dr Johannes Witteveen, the former managing director of the International Monetary Fund who now chairs the Group of 30, wrote in the group's annual report that the surge in oil prices and the resulting shifts in current account balances was placing international monetary relationships under greater strain. "I believe that the long-run stability of the banking system is also in question," wrote Dr Witteveen.

"Neither the causes nor the consequences of these various changes are well understood. Yet until they are, it does not seem likely that appropriate and widely accepted policy responses will be forthcoming."

The Group of 30's task was to "explore the basic problems in the functioning of the international economic system, to clarify the issues, and to identify and assess the various policy options."

The Group of 30 is a rather mysterious body which sits uneasily halfway between the public and private sector. Although it receives its money from a grant from the Rockefeller Foundation its central bank members are always conscious that they have other paymasters and sometimes appear to be bending over backwards to disassociate themselves from even the most innocuous comments or views of the Group of 30.

An article in the Institutional Investor last year described the Group of 30 as a "self-appointed, ongoing policy-analysis group dedicated to the proposition that the world will benefit if distinguished central bankers, private bankers, academics, multinational business leaders and government officials sit down and talk to one another about whatever issues they find important."

"... despite the members' reservation about sticking their necks out publicly, there is no other body which can boast such a distinguished group of members of the financial community."

The description is as good as any and, despite the members' reservation about sticking their necks out publicly, there is no other body which can boast such a distinguished group of members in the financial community.

The European members include Otmar Emminger, the former President of Germany's Bundesbank, Kit McMahon, Deputy Governor of the Bank of England, Andre de Lattre, former Deputy Governor of the Banque de France, Alexandre Lamfalussy, the economic adviser at the Bank for International Settlements.

The U.S. contingent includes Robert Roosa, the former Under Secretary for Monetary Affairs at the U.S. Treasury and now a partner in Brown Brothers Harriman, Anthony Solomon, President of the Federal Reserve Bank of New York, and Henry Wallich, Governor of the U.S. Federal Reserve.

The academics on the group include Peter Kenen, Professor of Economics at Princeton University, and Max Corden of the Australian National University.

Dirk de Bruyne of Royal Dutch Shell and Jacques Maisonrouge are among the industrialists represented and there is also a smattering of representatives from the Third World such as I. G. Patel, the Governor of the Reserve Bank of India.

The Group of 30 was set up in December 1978 and is in many ways a successor to "the Bellagio Group" which had operated throughout the 1960s as a low-key discussion group on international financial affairs.

The Group meets formally twice a year for two to three days at a time and in between there are several study groups on to which bankers and other non-members of the Group are co-opted for special assignments.

Last year's annual report gives a good guide to the operations of the Group over the year. The Group held a plenary session in New York where discussion ranged over the exchange rate policies of major countries and the outlook for international banking system.

The second plenary session six months later in Budapest discussed the evolution of the international monetary system, budget deficits, trends in the financial markets, developing countries in the 1980s and the prospects for East-West trade.

A study group, under the chairmanship of Jelle Zijlstra, the former President of the Bank for International Settlements, was established to look at ways international institutions like the World Bank and the IMF are evolving.

Another study group on financial futures was set up and several other study groups on issues such as international banking, energy and multiple reserve currency met during the year.

A total of 12 reports were issued last year.

The early years of the Group of 30 have coincided with major problems on the international financial scene and although it is hard to measure the contribution of the Group to the solution of these problems it has clearly had some influence on official thinking.

The international agencies have found themselves being drawn into the rescue operations mounted for debtor nations. This has opened up a new debate on their roles and functions

Call for redefining the role of ringmaster

The International Monetary Fund

MAX WILKINSON

IT SEEMS remarkable that little more than a year ago, the International Monetary Fund's Interim Committee was meeting in Helsinki in a relaxed, almost complacent mood.

There was little talk then of the possibility of a collapse of the international banking system as a result of a major default by a debtor country.

The member-governments generally expressed little urgency about the need to increase their quota subscriptions to the Fund. Although the U.S. argument that no increase was needed was then an extreme position, the European governments seemed prepared to allow the negotiations to continue at a relatively gentle pace.

In retrospect, however, it is clear that the global financial storm was already brewing. The danger signals were certainly visible to a number of senior IMF officials who had been looking at the debt position of Mexico and other Latin American countries.

The storm broke in the summer of 1982, when it became obvious that Mexico could not repay a substantial part of its short-term debts and that the major banks were reluctant to go on lending without some intervention by the international authorities.

The first job was to shore up the country's tottering debt structure with some temporary props to prevent a cumulative collapse.

This was accomplished by a hastily assembled bridging loan of $1.85bn from the Bank of International Settlements the central bankers' bank in Basle, Switzerland. This was matched by an equivalent loan from the U.S., whose own clearing banks were particularly exposed in the country.

This bridging finance allowed time for the IMF to negotiate a programme of support which involved a severe cut-back of consumption and imports by Mexico. Long and delicate negotiations with the clearing banks ensued to persuade them to continue to increase their lending to Mexico in the expectation that the IMF's adjustment programme would eventually restore financial discipline.

This hastily put-together "rescue" for Mexico established a three-pillared approach to the problems of the debtor countries involving the central banks the commercial banks and the IMF since then, rescheduling arrangements have become almost a routine occurrence.

The IMF has emerged as the central support, although the actual amount of its lending has been small compared with that of the commercial banks.

The Central Banks and particularly the BIS, which played such a crucial role in the rescheduling of Mexico's debt, have tended subsequently to move away from centre stage where possible, and to emphasise their function as providing a temporary strut, while more permanent supports are being negotiated.

Although the central banks have more direct responsibility for the supervision and ultimate support of the clearing banks, the IMF is the only international body which combines the authority and the expertise necessary to negotiate the severe adjustment programmes needed to prevent some countries' debts from mounting almost indefinitely.

The IMF is the only international body which combines the authority and expertise necessary to negotiate the severe adjustment programmes needed to prevent some countries' debts from mounting almost indefinitely

However, this pivotal role has put the IMF under considerable financial strain. At the Toronto annual meeting in September, there was an embarrassing failure to make an immediate response to the debt crisis by a rapid agreement to increase quotas. However, this was remedied in February when, after some tense bargaining between the U.S. and other countries, a 47.5 per cent increase in quotas was agreed on an accelerated timetable.

The increase, which will bring total subscriptions to SDR 90bn ($97bn) is expected to be ratified by individual governments by the end of this year, almost two years ahead of the original timetable. Even so, the high rate of IMF support is likely to oblige it to ask for bridging loans from member countries later this year.

The IMF's new position as the ringmaster in the rescheduling of international loans has led to a number of proposals for a redefinition of its role and methods of operation. These range from generalised calls for "a new Bretton Woods" meeting in which the major governments would rethink the whole structure of international financial co-operation.

However, there have been some more specific ideas. One of these is the suggestion that the Fund should play a larger part in the financing of third world deficits by issuing long term bonds in the world capital markets.

This would enable it gradually to displace some of the commercial banks' sovereign lending. Advocates of this idea include the influential "Group of 30." (This is an independent group of distinguished economists and international financial experts, including Dr Otmar Emminger, former president of the West German Bundesbank, and Mr Johannes Witteveen, former managing director of the IMF.)

Although this idea has by no means been ruled out, several governments including the U.S. and the UK, prefer to maintain the closer ties with member governments which result from the present method of financing through quota subscriptions.

A more radical idea, strongly supported by some commercial bankers, is that the IMF should in effect take over some of the commercial banks' lending to third world countries by issuing long term low interest bonds in exchange for dubious loans.

One of the main objections to this idea or a similar bailing out operation by Central Banks is that it would absolve the clearing banks from the consequence of what many see as highly imprudent lending policies in the past.

In its recent annual report the Bundesbank strongly opposed the idea that the IMF should take on commercial loans.

It says that this would radically alter the fund's character as the provider of short-term credits to help members out of temporary balance of payments difficulties. It is clear that any shift to a policy of long term lending would tend to weaken the Fund's power to insist on measures to re-impose financial discipline in the countries experiencing difficulties.

For these reasons, there seems little prospect at present of any major change in the role of the Fund. On the other hand, the underlying difficulties which have threatened a banking collapse are by no means solved, it is clear that the IMF will remain very much in the front line of rescheduling activity and of controversy.

Glyn Genin

Jacques de Larosiere, former French Minister of Finance, managing director of the International Monetary Fund: in the front line of rescheduling activity and controversy

Emphasis of the bank is on long-term lending

The World Bank

ANATOLE KALETSKY

Washington

WITH AN annual lending programme of $13bn, total loans outstanding of over $90bn and a huge fund-raising effort which makes it the biggest non-resident borrower in every major capital market in Europe, America and Asia, the World Bank is not only the world's largest development institution but also the biggest single creditor to most of the financially troubled countries in the Third World.

However, unlike its sister institution the International Monetary Fund (IMF), whose grand office building in Washington is surrounded on three sides by the Bank's even larger complex, the Bank has avoided becoming too deeply embroiled in the financial crises of its clients. It is a long-term lender, indeed the longest lender in the world, with some loans stretching to 50 years, and it has no real capacity to mount "fire-fighting" operations, dealing with the initial emergency rescue phases of the developing countries' debt problems.

Roger Taylor

A. W. Clausen, President of the World Bank: the longest lender in the world

Although some Bank officials admit privately to being somewhat chagrined by the way their colleagues at the Fund have hogged the international limelight over the past year, there is no sign that the Bank intends to change its fundamental philosophy in order to secure a leading role in the financial drama. Within the bounds of this philosophy, however, which the Bank feels must continue to emphasise long-term development and project lending, there have been a number of procedural innovations introduced which officials believe will increase their flexibility to help their clients at the margin.

There are three broad ways the Bank can respond to the growing shortfalls in private sector lending to developing countries—by increasing lending, by changing the type of lending it does and by accelerating disbursements on already committed loans. In the past few months programmes have been announced on all these points but despite the Bank's very large aggregate lending—which is substantially larger than the IMF's—the impact of its efforts on any of the biggest debtor countries will be marginal.

Squeezed out

It is in the smaller and poorer developing countries, many of which have been squeezed out of the commercial loan markets altogether in the general retrenchment which followed the shocks of Mexico and Brazil, that the Bank's role is all-important.

There are two major constraints on the Bank's ability to increase its total loan commitments much beyond the $10.3bn and $2.7bn advanced in 1982 by its two operating units—the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). These constraints are the shortage of loanable funds and the shortage of suitable projects.

To a certain extent the shortage of funds is notional. The IBRD, which is the Bank's profit-making arm, could potentially increase its lending a great deal simply by increasing its debt-to-equity ratio beyond the ultra-conservative one to one margin which it has traditionally maintained.

The IBRD is one of the highest regarded borrowers in the world. It has never suffered a default from any of its clients and is rated by the capital markets as well as or better than almost any sovereign borrower. Its profits for the year to June 1983 are expected to be $700m or more; after a record first half profit of $448m announced in March.

Gearing

Indeed its profitability and ample liquidity (over $11bn) have grown so rapidly in the past year that the Bank's management has all but eliminated, amid some embarrassment, a special commitment fee of 1.5 per cent introduced only last year to reverse a trend of gradually declining profits in the previous few years. After being cut to 0.75 per cent in January, the fee was reduced to 0.25 per cent in March.

Nevertheless, neither the Bank's management nor its shareholders, the governments of the 146 member countries, are at all inclined to increase the Bank's gearing. Bank officials dismiss any thoughts of using the Bank, with its established presence in the capital markets, as a vehicle for one of the ambitious global debt restructuring schemes doing the rounds of academic circles in the U.S. and exciting some official interest in Europe.

One reason for the IBRD's reluctance to borrow more aggressively is concern about IDA, the Bank's soft-loan affiliate. IDA charges no interest on its loans apart from an 0.75 per cent service charge. Its funds come entirely from contributions by member governments, with some topping up from IBRD profits.

The growing fiscal stringency around the world, and particularly in the U.S., has imperilled IDA's very existence and there are serious fears in the Bank that a further shift towards borrowing from the markets instead of raising capital from governments could transform the Bank from a development institution into something approaching a commercial bank.

While the U.S. has repeatedly reneged on its promise to contribute $3.24bn to IDA's sixth replenishment, which was supposed to have been completed last year but has now been stretched to 1984, other countries are reluctant to expand their contributions to IDA in future.

The Bank's staff believe, however, that IDA, which finances about 10 per cent of the total current account deficits of the world's poorest countries, carries out some of the whole institution's most important activities. Without this kind of concessional lending many of the poorest countries would have to cut living standards very much more in order to raise foreign exchange for their development needs.

One alternative to higher gearing which the Bank has enthusiastically embraced is the "co-financing" of projects with commercial banks. The co-financing idea is seen as having considerable long-term potential for bringing commercial banks back into the business of development lending after their shocks of the past few years.

Under a new scheme unveiled this year the Bank is arranging for commercial partners to lend in parallel with its own loans and is even taking part in loan syndicates in order to extend an implicit guarantee to certain kinds of project lending. Because it has never suffered a default or rescheduling on its loans participation in a World Bank project is seen as a much safer alternative to direct country lending, particularly for smaller commercial banks.

Even without a funding constraint the Bank would have difficulties in gearing up its lending to cash-starved developing countries for the simple reason that projects capable of meeting the Bank's stringent profitability and management criteria take years to design. Furthermore, borrowing governments always have to contribute a substantial proportion of any project's costs from their own revenues. The public spending cuts being imposed in many developing countries in response to their debt crises thus tend to retard or even eliminate many Bank-sponsored development projects, rather than accelerating them.

The Bank management has attempted to deal with this problem in two ways. In February this year it was announced a $2bn Special Action Programme (SAP), which is designed for the first time in the Bank's history, to address its clients' short-term liquidity needs as well as their long-term development requirements. Most of the money will be spent simply by accelerating disbursements on existing project loans, mostly to middle income countries like Brazil and Mexico.

The Bank will not alter its criteria for approving projects but it will finance a higher proportion of costs, including even local costs, for the first time. In addition it will soften some of the strict rules which now prevent loans being disbursed until specified portions of a project are completed. As a result of the SAP the Bank believes that development momentum in many of its borrowing countries will be maintained even while they are cutting back on public spending generally.

The Bank's second response to the limitations of pure project lending has been much more fundamental and controversial. Starting in 1980 the Bank began a number of experimental Structural Adjustment Loans (SALs) which are not linked to specific projects but rather to conditions about policy reforms designed to improve the structure and functioning of a country's economy as a whole.

With these SALs, which have been expanded steadily but cautiously in the past three years, the Bank has come very close to overlapping into the IMF's territory. The difference between an IMF loan and an SAL is that the Bank is lending with a much longer time perspective and with emphasis on micro-economic policy adjustments such as agricultural and energy price distortions, labour market conditions and specific industrial subsidies.

Continuing debt

The IMF in contrast, expects its loans to start being repaid within a relatively short period and focuses on much broader macro-economic imbalances involving external payments, currency misalignments and fiscal policy.

The continuing doubt about SALs among the Bank's own board members, from both the rich and the poor countries, is reflected in the fact that only 13 countries have so far reached SAL agreements, despite the fact that the great majority of the Bank's members could potentially benefit from major economic restructuring. An SAL gets the Bank's economists rather more closely involved in a developing country's general economic policymaking than has been traditional in the past and this is undoubtedly the reason why none of the Third World's biggest debtors have yet completed negotiations on SALs, although both Mexico and Brazil are believed to have held some talks with Bank officials in the past year.

Despite the difficulties SALs are expected this year to breach to limit of 10 per cent of total Bank lending tentatively set by the Board in 1980 and further movement towards economic policy conditionality as an integral part of Bank lending is expected in the years ahead.

Rank by Assets 12-31-82		Net income 1st Q 1983	Net income 1st Q 1982	% change	Net income 1982	Net income 1981	% change
1	Citicorp	228.0	194.0	+18	713.0	531.0	+36
2	Bank America	120.3	118.6*	+1.4	412.0	445.0	+ 1.4
3	Chase Manhattan	106.1	114.8	(−8)	303.0	412.0	(−25.4)
4	Manufacturers Hanover	82.0	62.1	+32	215.0	252.0	+17
5	J. P. Morgan	117.8	86.0	+37	394.2	354.3	+11.3
6	Chemical New York ...	71.5	61.7	+16	240.6	215.0	+11.9
7	Continental Illinois ...	31.2	66.5	(−53)	77.9	254.6	(−69.4)
8	First Interstate	58.2	55.4	+5	221.2	236.1	(− 6.3)
9	Bankers Trust	61.1	53.0	+15	239.0	188.0	+27
10	Security Pacific	61.2	52.6	+16	234.3	206.5	+13
11	First Chicago	43.5	33.2	+31	136.8	118.7	+15
12	Crocker National	16.1	18.1	(−10.5)	71.6	62.9	+13.8

U.S. BANKS: ASSETS AND INCOME ($m)

* This does not reflect change in account policy cumulative effect on prior years

The large banks are pledged to stay in international lending, but the rules may change

Stricter supervision on the way

U.S. banks and the debt crisis

DAVID LASCELLES

THESE ARE the best and the worst of times for U.S. banks. The last 12 months have seen them buffeted by the less developed country (LDC) debt crisis and the nerve-wracking collapse of banks like Penn Square of Oklahoma. On the other hand, their strenuous lobbying for bank law reform is beginning to pay off: 50-year-old restrictions on where and how they may do business are being dismantled at a rate that would have seemed astonishing only five years ago.

And because deregulation will bring them lasting benefits while the LDC crisis should, with patience and luck, begin to ease, American bankers are probably as optimistic deep down now as they have been for years.

Not that there is any complacency about the LDC debt problem. Concentrated as it is in Latin America, a market where U.S. banks established a major presence during the 1970s because of its proximity and promise, it has left hundreds of them with more than their net worth at risk, in some cases just to Mexico, Brazil and Argentina.

According to Federal Reserve figures issued last December, U.S. banks have a total exposure of about $88bn to the 12 largest LDC borrowers, of which about $60bn is held by the nine largest U.S. banks. This is a far larger exposure than any other lending nation, and a good part of it belongs to small banks who got tempted into the international lending business and are now wishing they had stuck with their local farmers and Main Street stores.

Thus far, though, U.S. banks have few signs of strain, for two reasons. First, U.S. bank supervisors have made it clear that they think the answer to the debt crisis lies in more, not less, lending. So they have induced banks to lend by promising not to criticise their exposure to countries like Mexico and Brazil where they judge the borrowers to be basically solvent and trying to put their houses in order. So, while banks have by and large increased their LDC exposure by joining the IMF-sponsored rescues (reluctantly in some cases) they have not been forced to take large write-offs.

Second, banking has been quite profitable despite the recession. Apart from the well-publicised troubles of Continental Illinois, which got burnt by Penn Square, and Chase Manhattan, which lost millions from the collapse of Drysdale Government Securities, most major banks reported healthy profit gains in 1982, and have got off to a good start in 1983. The sharp fall in U.S. interest rates in late 1982 was a help; big banks also benefited from their growing fee-based business.

Although smaller banks are certain to use the first opportunity to get out of international lending, large banks in New York, Chicago and California, have pledged to stay in the market. In its annual report Citicorp said it "expects to maintain its role in international lending to governments and believes any losses in this area will continue to be below those on commercial and industrial loans."

Friendship

The big banks will probably have to shoulder some of the smaller banks' exposure. But they strive to keep in sight their long-term friendship with countries like Brazil, certain that in the years ahead they will reap rewards for having stuck by them when times were tough.

But the rules of the game are certain to change. The banks' comparatively modest write-offs have triggered a sharp political reaction in Congress which believes they are escaping from the LDC crisis just a little too lightly—at taxpayers' expense. In order to justify approval of the $8.4bn increase in the U.S. subscription to the IMF, Congress is cooking up a new international banking law designed to rein in the banks. In its draft form the bill would require more disclosure about foreign loans, establish formal loan loss provision standards, and force banks to spread loan syndication fees over the life of a loan. At the moment they can count fees immediately as earnings, which is said to make them greedy.

The measures have the backing of U.S. bank supervisors, who want stronger powers, particularly on loan loss provisioning, though agencies like the Fed would have preferred to deal with the matter administratively rather than through a rather overplayed Congressional drama. The banks are worried about the scrutiny and cost implied by the Bill which, they say, will inhibit international lending at a crucial moment and impare a competitive handicap in the banking market. Their hope is that the bank supervisors will carry out their promise to be flexible.

Bank supervisors have been thrown on the defensive over both LDC debt and the much-publicised domestic crises which—thus far at any rate—have proved far more damaging. Their failure to avert trouble has been ascribed to their "sleeping at the switch," an accusation that is only partly true since U.S. bank supervisors, like many foreign counterparts, are reluctant to order banks about. Even so, recent events have suggested to Americans that bank supervision is not all it should be, and further reforms may well be sought.

Further articles on the U.S. banking scene will appear in Part II.

Efforts to refine system

MEXICO'S DECLARATION of insolvency in August last year will probably go down in history as the trigger for the worst crisis the world of international banking has seen since the 1930s. As with all catastrophes it was not long before recriminations started flying.

How was Mexico able to borrow such a large amount of money? Why were commercial banks not stopped from lending more when over half of Mexico's debt was already short-term? How was it that loans to Mexico were able to reach such a large share of the capital of some banks that a default by Mexico could also have meant insolvency for some lenders as well?

It is questions such as these that have thrown new attention on the way international banking is supervised. Renewed interest has centred in particular on the Committee on Banking Regulations and Supervisory Practices of the Bank for International Settlements in Basle. This is known as the Cooke Committee after its chairman, Mr Peter Cooke, Head of Banking Supervision at the Bank of England.

It would be easy to blame the supervisors for dereliction of duty in not forstalling such a serious situation as that provoked by the Mexican debt crisis. But in a speech to the last Financial Times Conference on World Banking Mr Cooke offered a spirited defence of the supervisory role.

The Basle Group

PETER MONTAGNON

"Very substantial progress has been made over recent years towards realising the first objective of the Basle Concordat of 1975 [the document setting out the framework for international banking supervision] namely that no international banking activity should escape supervision.

"There will of course inevitably be some supervisory mishaps. . . . But I believe the essential structure is in place within which international banking can operate soundly and confidently. It is misleading to imply that there are large areas of the international banking system which escape supervision. There are no rogue herds of unregulated bankers tramping through international markets."

What has been happening since the Mexican crisis and the almost simultaneous collapse of Italy's Banco Ambrosiano has been efforts to refine the supervisory process. Part of this involves the related area of ensuring that banks have adequate information on country risk. The direct supervisory issues include:

● Efforts to ensure that international lending by banks is backed by sufficient capital resources after capital adequacy standards declined in the 1970s. Regulators are also paying more attention to the adequacy of banks' provisions for bad and doubtful loans.

● Improved contacts between banking supervisors in industrialised countries and those of offshore centres as well as those in the developing world such as the Commission of Latin-American and Caribbean Banking Supervisors.

● The reaffirmation of supervisory responsibilities of individual centres to ensure that remaining holes in the net are filled. This became particularly important after the confusing dispute over responsibilities for Banco Ambrosiano's foreign interests.

The Bank of Italy declined to take any responsibility for the foreign interests of Banco Ambrosiano, which were grouped in a Luxembourg holding company. The Luxembourg Banking Commissioner also rejected responsibility on the grounds that Banco Ambrosiano Holding was a holding company and not a bank. The Basle Concordat is at present being redrafted to take account of this problem.

None the less, any movement towards closer harmonisation of international bank supervision is bound to be a slow process. It often involves conflicting national interests such as, for example, that the competitive position of one country's banking system may suffer in any global tightening of capital requirements. Regulators have also been loth to impose provisions on sovereign debt for political reasons and because the fiscal treatment of such provisions differs from country to country.

"There is no overnight cure," says Mr Cooke. "Time will be needed for the appropriate adjustments to be made to take account of current and prospective realities. Now is no time for precipitate action or reaction. Bankers should have sensible time horizons. Theirs should not be a business which moves impetuously to and from sloughs of despond and the celestial gates."

Debt problems have pushed backroom analysts to the fore

Closer common approach

Sovereign risk analysis

TERRY POVEY

"IF YOU sat in on a meeting of the Country Risk Committee I think you'd be impressed by how much they knew but appalled by the difficulty of transferring that knowledge into policies for loans."—Mr Robert Slighton, Chase Manhattan's chief economist, as cited in the Money Lenders by Anthony Sampson.

SINCE Mr Slighton made his comments in 1980 the science, or should one say the art, of sovereign risk analysis has come a long way. The shock waves of the Islamic revolution in Iran (in particular the exposure of America's inability to be able to act to protect its ally and its diplomatic and commercial interests) and the drama of recent rescheduling operations has brought the analysts out of the backrooms and into playing an increasingly important role in credit policy formulation.

"If in the past our senior management didn't listen to us enough they may now be listening too much. We get asked at what spread we should lend to a certain country and this is very difficult for us to answer because we cannot tackle the whole question of the bank's business and spread in only partly a function of risk," said a senior economist with a major U.S. bank.

The rescheduling crises have seen the arguments about what tools and information to depend on intensify and agreement still seems a long way off. Since 1979 there have been some 40 debt rescheduling operations for about 30 countries—roughly the same number in the previous 20 years and 1982 must go down as one of the most difficult years ever for the international banks since they began rapidly increasing their unsecured lending.

For the analysts the past year has seen increasing pressure from management to come up with country assessments that can readily be transformed into decisions as to how much to lend and at what rate. As a result rating systems have been devised, put to the test and revised again, until in some banks today a frighteningly simple five or seven point scale of borrowers has been drawn up. There are, however, still some major banks resisting the rush to systematise. "We don't rate borrowers," said one of the senior managers of a UK-based international bank proudly.

While the traditionalists appear to be pinning their calculations on the well worn GDP-path others have branched out into the far more sophisticated (and more trying) foreign exchange cash flow projections. As they have done so the need for more reliable information to be available more has grown rapidly.

❛ For the analysts the past year has been increasing pressure from management to come up with country assessments that can readily be transformed into decisions . . . ❜

Some senior executives remain unconvinced about such analytical techniques: "I am very cynical about the claims for cash-flow, bankers will tell you only what happens to suit them at the time. There was a time when cash-flow was all the rage but it now seems that solvency and asset backing is more in vogue," is a typical comment.

So what is the role of the freshly exalted work of the analyst? The more academic work of country report writing appears to have been pushed into the background as immediate decision-making has become more pressing. The three-way debate between the loan officer in the field ("who usually does not concern himself with risk"), the credit manager and the analyst has developed in many banks to the point where at least some of the theoretical aspects of risk are beginning to be studied more, even if the results have to be simplified for presentation.

Using the model developed by G. Feder and K. Ross Swiss Bank Corporation (SBC) has been trying to answer the question of whether or not the banks "really did take the risks into account when joining a loan syndication."

SBC found that up to the end of 1982 "risk neutrality" (defined as the use of higher premiums so as to protect the expected return on risk assets, allowing for losses, and bring such returns on secure loans) seemed adequately to describe the bank's behaviour. Risk was seen as split up into two components: first, the probability of default and secondly the expected loss rate in the event of a default.

The Feder and Ross model predicts that margins increase with default probability, the expected loss rate and the discount rate. The effects of maturity, grace periods and front-end fees were considered either unclear or undecisive.

However, the model as tested by SBC proved less reliable in the cases of exactly those countries that present some of the biggest problems—Mexico, Brazil and Argentina. It would appear, therefore, that risk neutrality is being abandoned in the cases of large sovereign debtors and that these will continue to face additional premiums reflecting higher loss rates expected by banks in the event of a defult. (Default includes every kind of restructuring or rescheduling of payments.)

It would seem, therefore, as if one could conclude that risk neutrality was the order of the day until quite recently but that it is being rapidly replaced by what SBC call risk aversion (higher premiums to get a higher return), particularly in the case of the bigger debtors. According to an American banker, however, "if you believe a country will default it doesn't matter what you do, neither 3 nor 5 per cent above Libor will protect you adequately against the loss."

There is now a growing awareness of what went wrong in the past. Margins, say the bankers, were too low before and now the "banks are just putting on the spreads that should have been put on a couple of years ago." The making of provisions (often a tax-exempt deduction from pre-tax profits) has also grown, although here, as with other matters, there are sharp differences of opinion on the right amount and even, more theoretically, the actual intent that lies behind the setting aside of sums to cover possible losses when such losses are not being seriously foreseen by the very banks involved.

As rescheduling becomes more common the international banks are tending to adopt a closer common approach to risk assessment. The formation of the Institute of International Finance (seen by some as a "private enterprise IMF" and clearly intended as via media to the Fund by the 35 major banks involved) and a parallel Japan Centre for International Finance both clearly reflect the felt need for co-operation. Although the Washington-based Institute will not be carrying out any country rating it will be attempting to standardise information requirements from debtors and sending out inspection teams.

So the key word has become "system", the need to provide what SBC calls "an institutionalised framework for keeping track of international financial flows and recording the various external positions on a coherent basis." The Institute, so the bankers hope, will be a big step in this direction.

However, as there can be no real banking without risk the task of the analyst will remain critical. Communication within the bank will have to be improved for there is little point in spending large amounts of time on a very detailed analysis if its results cannot be transmitted effectively to the decision makers. "I regard half the economist's job not as calculating the risk but as making sure the bank listens", said one economist.

There will of course still be the problem of the chairman of the bank having dinner with the president of country X and assuring him of his bank's good intentions with regard to a future credit line. But now the economist and the political analyst are in a better position to say "Yes, well I'm sure he's a splendid fellow but haven't you seen X's rating" — and be listened to.

The international banking community has been actively considering how to ensure that the debt crisis of the past 18 months can be prevented from happening again. Some of the ideas being put forward are introduced here by **Alan Friedman**

An issue that must be resolved

The search for a lifeboat

AS THE international debt problems of 1982-83 developed, a number of senior international bankers advanced their own proposals for structural changes to the world banking system.

These changes, which range from the creation of new supranational institutions to the development of safeguards for the present banking system, are designed both to resolve the current dilemma of sovereign debt exposure and to avoid a serious recurrence in future.

Although several bankers have put forward their thoughts, some have been more influential than others in creating an atmosphere in the banking community which is conducive to a discussion of such proposals. Mr Felix Rohatyn, chairman of New York's Municipal Assistance Corporation, and a partner at Lazard Frères, has been one. Mr Bill Mackworth-Young, chairman of Morgan Grenfell in London, has been another. And Mr Harry Taylor, president of Manufacturers Hanover Trust in New York, has also been striving to create greater awareness of the need for long-term solutions.

The thoughts of these three gentlemen are presented below. They by no means reflect comprehensive solutions to the problems of the global debt burden. By their own admission these three senior bankers view such ideas merely as "talking points."

Each of the individuals has also made clear in recent weeks that they view the political obstacles to any complete solution as significant.

All of the bankers whose views are printed below have also evinced their sensitivity to the need for truly international approaches to problem-solving; what may be good for U.S. banks is not necessarily sufficient for others, and vice versa.

The one generalisation which can be extracted from their articles is that regardless of the problems inherent in attempting a major structural change in the world banking system, there is a patent need for more attention and time to be spent on the problems by both commercial and central bankers.

The problems of debt rescheduling, frozen principal payments and even recurring debt problems for some developing countries will be with us for some time to come. The burden of hundreds of billions of dollars of sovereign debt cannot be lifted within a matter of months.

VIEWPOINT: BILL MACKWORTH-YOUNG

Role for international bond markets

SOME YEARS ago, in the $35 golden age of Bretton Woods, capital moved only in a modest orderly way across the frontiers of the world. This was just as well, for the system was not geared to accommodate sudden or substantial movements. The increasing propensity of capital to move around during the later 1960s was one of the factors leading to the system's breakdown.

The world's current accounts went, first gradually, then with an oil-fired bang, into persistent imbalance. The resulting deficits had to be compensated in short order by massive contrary flows of capital.

In a perfect internationalist world much of that compensation would have been accomplished by a simple transfer of resources, by a programme of cross-border equity investment out of the surplus nations into the economies of the deficit nations. In the real world of the 1970s so economically logical a solution was not practical politics on either side, to any significant extent; while at the same time the problem itself was being exacerbated by an actual reduction in international aid.

So there was nothing for it but to build up the quantum of international indebtedness. A great part of the new debt was clearly going to be persistent; indeed it was even at the outset difficult to know how much of it could ever be paid off. And as any master builder will tell you, if you are constructing something large, to last for a long time, you are well advised to pay some attention to the stability of the structure.

For a long-term debt structure to be stable the borrower should have some degree of cost certainty (fixed rates are usually preferable to floating): the lender needs the comfort of a secondary market, or some similar facility. Thus we can see with all the clarity of hindsight (though even at the time there were some more prescient) that these balance-of-payments loans should have been done for the most part in the international bond markets, with debtors issuing directly to creditors freely marketable instruments, at fixed rates, offering a carefully spread range of maturities.

Impossible, you say. No investor would ever have taken the credit risk; and secondary markets, vitally necessary for investors' liquidity, would have been virtually non-existent. Just so: that is why the bond issues would always have had to carry unimpeachable guarantees, perhaps given by some supranational agency, certainly backed up by the world's principal central banks. Thus the Haves would have been free of either credit or liquidity worries, they could if they wished have sold their bonds into thriving secondary markets. The Have-nots, secure in

Mr Mackworth-Young, chairman of Morgan Grenfell in London

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the exact knowledge of how much money their debt service was going to cost them, would have relied in the last resort on the guarantee of the whole developed world, to the ultimate benefit of all.

The fact is that in 1973-74 the OECD nations were far too bound up in their own worries even to consider so broad-minded a strategy. What actually happened was that the Opec creditors left their money on short-term deposit with the banks, which lent it on at long-term, or effectively so, to the debtors. By a curious analogy with the waste paper industry this process was called recycling; and the authorities in all the principal industrialised countries cheered it along, for neither they nor the banks saw the alternative.

At the end of the day the Haves were still both confident and liquid. But the Have-nots, floundering in the treacherous quicksands of Libor and the U.S. prime, were in reality being underpinned, not by the massive resources of the developed world as a whole, but by a small and vulnerable part of those resources—the capital and reserves of its principal banks.

Thus when a mammoth rise in rates, together with violent currency fluctuations and a deep recession, called into question the ability of many of the borrowers to service their debts according to their contracts, what would in any case have been a serious difficulty began to display some of the characteristics of a crisis. If an original lender, or an original guarantor, actually loses all his money, that is a misfortune. If a number of prominent banks are even thought to be at risk of losing their capital, that triggers off a catastrophe (which is not to deny that banks should be expected to contribute quite substantially to the cost of any debt stabilisation programme).

The present difficulties are being well and expertly handled in a series of officially sponsored rescheduling negotiations. None of us who have put forward schemes for the more radical reform of international debt structures has any desire to pour cold water on that process. Quite the reverse. We applaud it. But we do say that it is not enough, and that when it is all done, and the dust has settled, long-term balance-of-payments debts simply have by one means or another to be disintermediated—certainly any newly contracted such debts, preferably also the billions that are already clogging up the arteries of the international banking community.

For if we complacently leave things as they are, not only will the banks continue to be hampered in their traditional and important trade- and project-related cross-border operations; as sure as night follows day there will be another bout of difficulties, perhaps for different reasons, perhaps involving different debtors. Next time a crisis looms we may not be either so skilful or so fortunate.

VIEWPOINT: FELIX ROHATYN

New Bretton Woods conference needed

THE YEAR 1982 was a watershed for world debt, with a serious situation considerably aggravated by large additional banking credits granted to Mexico, Brazil and other countries, at a time when their economies were already deteriorating rapidly.

Fortunately, it was recognised in the end by the world in general, and the U.S. in particular, that a major problem existed and that something had to be done about it.

The default of Poland, at the end of 1981, should have awakened us. It did not do so, firstly because American bank exposure was limited and second, because it became mixed up with ideological and geopolitical considerations. When Mexico defaulted, followed shortly thereafter by Brazil, the U.S. Government and the Federal Reserve Bank took the lead in preventing a banking crisis, then and there. Simultaneously, the Fed drastically, and quite correctly, eased its monetary policy and lowered interest rates and, together with the IMF and commercial banks, put together the necessary rescue packages. These were brilliant crisis management operations for which our Treasury, the Fed and the participant banks deserve great credit; they bought us valuable time, but the danger is still there.

We must recognise a fundamental fact. We have become the prisoners of our debtors. Poland, Mexico, Argentina, Brazil and now Romania have

> The time has come for much closer institutional ties between the main European currencies together with the dollar and yen.

all, unilaterally, defaulted on their debts and are, in effect, dictating rescheduling terms to our banks. Poland has now gone so far as to include $3bn of 1983 debts, which will not be repaid, as a saving in her current budget. The acquiescence of our banks in rescheduling both interest and principal is now taken for granted and, with the exception of Eastern Europe, our banks have really no choice.

It is clear that, for the time being, a significantly beefed-up IMF, together with bank loan rescheduling, are needed to continue to avoid a crisis.

The potential danger still lurking in the system is not an accidental country default. We have had defaults (in fact if not in name) and they can be papered over by rescheduling, without requiring major write-downs of a bank's capital. On the other hand, there does exist the danger of a unilateral repudiation of external debt by a country politically radicalised by economic depression, and IMF-imposed austerity.

Many responsible bankers believe this to be out of the question, although it may be unlikely, I do not believe it to be impossible. The longer the world-wide economic depression goes on, the greater the risk. Such repudiation would require, for legal and accounting reasons, drastic writedowns of the capital of many large banks, possibly impairing the capacity of several to function.

Another current risk is that of bank failure in a jurisdiction where no strong central bank exists. Banco Ambrosiano, which is reported to have lost over $1bn overseas, is a striking example. Banks operating in tax-shelter countries like the Bahamas or Cayman Islands

Mr Felix Rohatyn, chairman of New York's Municipal Assistance Corporation

could fail and trigger a chain reaction difficult to contain. The allocation of responsibility among central banks should be increased beyond their respective borders to respond to a possible problem in those areas.

But while the current improved co-ordination among central banks, the IMF, the BIS and the commercial banks, together with our own the U.S. government's recognition of the gravity of the problems are the most important factors in preventing a crisis. The problems caused by the overhang of world-debt can only be addressed within a framework which provides for:

● Strong economic growth among the industrial countries, together with international trade policies that are as open as possible;

● Long-term, low interest rescheduling of much of the Third World debt to provide economic breathing room to the Third World.

The current economic forecasts of weak real GNP growth in the U.S., practically no growth in Western Europe, and lower-than historic growth rate in Japan, bode ill for the world debt problem. The current practice of rolling over debt principal and capitalising interest costs year by year, is a bridge to nowhere. The result will be a doubling of the debt every four or five years and an inevitable breakdown in the system.

Simultaneously, the issue of debt stretchout should be considered. Many debtor countries, today, have debt service payments of more than 100 per cent of export earnings. The current rollovers are not attenuating the problem sufficiently and, asking the banks to provide new credits to borrowers choking on the old ones, is not really helping either the lenders or the borrowers.

A significant part of the $700bn presently loaned to the Third World and Eastern bloc will only come back over a very long period of time, if ever. Instead of maintaining the fiction that these are short-term, high-interest loans, and asking the banks to increase their commitments, it might be

> We must recognise a fundamental fact. We have become the prisoners of our debtors.

better, both for lenders and borrowers, to create a mechanism which would stretch existing loans out to 25-30 years, at much lower interest rates.

If, for instance, $300bn of existing short-term credits were stretched out to 25 years or 30 years, with an interest rate of, say, 6 per cent, this would provide enormous, immediate relief to the borrowing countries without changing the economic reality of these credits. The savings on interest costs alone, could amount to $15-20bn annually and would reduce the current pressure for additional credits from an over-stretched banking system. Together with the remaining short or medium term debt, the schedule for principal repayments could be tailored, country by country, in such a way as to reduce debt service costs to 25-30 per cent of exports.

Co-ordinated Western growth is required together with liberalised trade. To achieve that growth economic and monetary policies that are more expansive will have to be agreed upon among at least by Germany, the UK, Japan and the U.S. In addition, a stabilisation, within realistic limits, of the main world trading currencies is a necessity.

The time has come for much closer institutional ties between the main European currencies, together with the dollar and the yen. A 1983 version of the Bretton Woods Conference should provide a framework to decide among various options. These would include stated commitments by the respective central banks to maintain currencies within agreed-upon ranges, co-ordination of monetary policies, possible expansion of the European Monetary System to include the dollar and yen, and expanded swap arrangements.

The present approach of combining IMF austerity programmes while keeping the borrowers under continuing crushing debt-service pressures, could be self-defeating. Unless a strong, world-wide recovery were to occur soon (which seems unlikely) the potential for social and political radicalisation will become greater and greater.

A subsidiary of the World Bank or the IMF, or a totally new institution, guaranteed by various governments, could acquire the banks' credits in exchange for long-term, low-interest bonds of its own. The new entity would become the substitute creditor, on the same long-term basis, to the present borrowers.

The banks would suffer loss of income, but due to the greater safety of the credit, could be permitted by their regulators to maintain their balance sheets intact or schedule limited writedowns over a long period of time. It would be difficult, but it is certainly feasible. It would provide a long-term, viable economic resolution which has to be the ultimate objective.

Certain other questions have to be raised. Should there be a change in some regulatory aspects of the banking system? Clearly the concept of aggregate country risk should be included in the legal lending limits of

> The present approach of combining IMF austerity programmes ... with continuing crushing debt-service pressures could be self-defeating.

American banks. What percentage of a bank's capital can be exposed in any one country should be the subject of debate, but there has to be a reasonable limit. Other changes in regulation, appropriate reserve ratios, evaluation of assets, will undoubtedly be the subject of further examination.

Should commercial banks lend to foreign governments on a long-term basis, or should this be handled on a government-to-government basis? This is a difficult question. In the case of Communist Governments such as Eastern Europe and the Soviet Union such credits are of strategic value and should be handled government-to-government. They should become a part of our strategic negotiations with the Soviet Union.

There are presently over $80bn of credits outstanding to Eastern European countries and the Soviet Union. They have to be rolled over and substantial additional credits provided over the next few years. Estimates have been made of another $40-50bn of new credits needed over the next five years. We should, together with our European allies, propose a long-term re-financing plan for Eastern Europe in which the Soviet Union would join us and would provide half the credits and assume half the commitments.

We should withhold rescheduling past debts, much less providing new credits, in the meantime. If this means a bankruptcy of Poland in the meantime, I would take this as an acceptable cost and our respective central banks can insure the viability of the banks involved, mainly the Germans. In a general sense, long-term loans are not the province of banks but rather of insurance companies and the public markets. If loans to foreign governments, by definition, are long-terms loans, it seems to me to raise a fundamental question.

One last question concerns Opec. The western democracies are now paying for the third time the Opec price increases of the 1970s. We paid directly by transferring hundreds of billions in price increases. We paid indirectly by the resulting inflation. We are now paying for the third time, by, one way or another, paying off the debts of the Third World countries which were originally entered into to pay for oil.

Opec may have less cash flow than it had two years ago, but their wealth and their credit is ample. This wealth must be mobilised to help in this refinancing effort. Opec has enough at stake in the well-being of the West, and we have enough combined leverage militarily and politically, to bring about such a negotiation.

Basic to any long-term resolution of the current world debt problem, are:

● Co-ordinated, aggressive economic growth policies among western nations;

● An orderly international monetary system whereby the main trading currencies are maintained within given ranges;

● A long-term, low-interest, refinancing of a significant part of the world debt.

This is not an easy programme. It requires political leadership and vision of a high order, beginning with the United States. So did the Marshall Plan, Nato and Bretton Woods. However, only a world-wide programme can solve a world-wide problem.

The U.S., Europe and Japan must, jointly, lead the world back to prosperity."

VIEWPOINT: HARRY TAYLOR

Loan discounting: no answer

BANKERS OFTEN refer to the current difficulties of certain newly industrialised countries as problems of illiquidity, not insolvency. Critics label this characterisation misleading and suggest that the inability to pay one's debts in a timely fashion is bankruptcy, regardless of the euphemism applied.

Bankers proclaim that the problems were brought on not by the borrowing countries but by events totally outside their control. Critics counter that it is the job of the banker to anticipate such events and to adjust their lending accordingly.

It counts for nothing, apparently, that no one else had been sufficiently prescient to predict four years of global recession, brutalising disinflation, the highest ever real cost of money and a crippling decline in commodity prices—all of which had rendered it virtually impossible for any nation, rich or poor, to maintain financial equlibrium.

Equally unforeseen were such developments as martial law in Poland and the war in the Falklands, which contributed further to a contagion of fear and the withdrawal of bank outstandings, even from countries where the economic fundamentals remained sound.

No matter which side one takes in this debate, however, these points and counterpoints are largely irrelevant to the task of crafting a means for moving ahead. Perhaps all parties should declare publicly that there is enough blame for yesterday to go around and then resolve in concert to get on with the work of tomorrow.

Useful parallels can be drawn, between the issues we face now and those that confronted the delegates to the Bretton Woods conference nearly 39 years ago.

Then, the immediate concern was trade between, and development within, the nations of a war-ravaged industrialised world—the stoking of an engine that eventually pulled all countries out of economic malaise. Today, an equally pressing concern is trade between the developed and developing world—a relatively new engine of growth, but one losing steam.

Then, an overriding imperative was to restore confidence to international financial markets and to reverse the beggar-thy-neighbour policies of the 1930s that had rendered the great depression more severe than it otherwise might have been. Today, the erosion of confidence is once again an issue, along with a discernible contraction in world trade and the resulting futility of the efforts of all nations to break out of recession, let alone achieve sustainable economic growth.

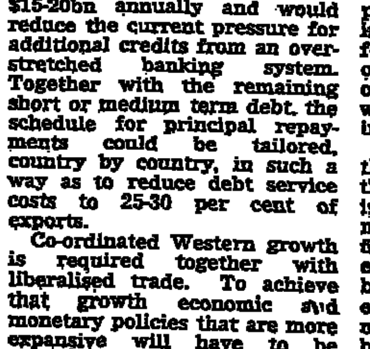
Unfortunately, many of the proposals now receiving broad media attention could, to my mind, lead to an even greater erosion of confidence and a further slowing of trade. Many would involve banks selling their loans at a discount and then turning around and lending additional sums to the same customers.

If such a scheme were developed, confidence would not be restored sufficiently to bring the players who have abandoned the international arena back into the game.

Nor could those banks, like my own, which have stayed in place accept an even larger burden on top of the new loans we are now required to make in the restructuring process at a time when the jury of the market place is still out.

The continued involvement of commercial banks in lending to developing countries is required. At the same time banks will need new implements, not new impediments, to maintain their involvement.

Though President Reagan's "magic of the marketplace" was not a vogue phrase in 1944, many who had travelled to Bretton Woods would have



Mr Harry Taylor, president of Manufacturers Hanover Trust in New York

embraced the philosophy it embodies.

Few, however, would have suggested that unfettered markets alone would be enough to get growth going again. Quite the contrary, there was broad agreement that new institutionalised approaches were required to strengthen and supplement what the markets could achieve.

A similar requirement exists today, and no amount of finger-pointing can obscure the fact that our international financial system is facing a crisis in confidence that can only be resolved by the kind of positive, forward-looking attitude that was present at Bretton Woods but is so lacking in the world today. The issues we face are like-minded. Our response should be like-hearted.

WORLD BANKING XI

BANKING IN EUROPE: The remaining pages of this survey examine banking prospects in individual countries

WEST GERMAN BANKS

	Parent company Total assets DMbn 1981	DMbn 1982	Loans DMbn 1981	DMbn 1982	Interest income DMbn 1981	DMbn 1982	Provisions DMbn 1981	DMbn 1982	Group Total assets DMbn 1981	DMbn 1982
Deutsche Bank	114.5	115.5	68.6	69.9	3.40	3.79	915.4	1,107.6	192.4	199.0
Dresdner Bank	79.6	83.6	48.7	48.6	1.72	2.06	158.6	401.4	170.0	†180.0
Commerzbank	64.3	66.2	46.0	47.1	1.23	1.69	191.6	603.2	101.3	108.2
Bayerische Vereinsbank	56.5	60.1	44.7	47.1	0.92	1.11	85.8	226.5	98.3	105.5
Bayerische Hypotheken und Wechsel Bank	60.0	60.4	45.1	46.5	0.91	1.22	48.0	306.2	89.2	92.0

† Business volume of group.

Despite a matching surge in profits West German banks have been less generous than their UK counterparts in dividend payouts

Loan losses counsel caution

Germany

STEWART FLEMING
Frankfurt

WEST GERMANY'S banks have rarely in the post-war period been as profitable as they were in 1982. But despite a profits surge of almost embarrassing proportions, shareholders have shared only modestly in their companies' success.

Unlike their British counterparts, the West German quoted commercial banks have only modestly increased their dividends, if at all.

In the case of Commerzbank, the number three in terms of assets, it decided for the third year in succession not to pay a dividend at all, although resumption of dividend payments will begin next year.

The second largest bank, Dresdner, was able to maintain its dividend at the level to which it has been reduced over the past two years as it too sailed a precarious course through the stormy years between 1979 and 1981.

Behind the *decisions not to* pass on to shareholders the fruit of last year's combination of good luck and better liability management and the aggressive *exploitation of a period of falling* interest rates, lies the international financial tensions surrounding country risk lending and the massive loan loss write *offs which have been required.*

Surging corporate bankruptcies in West Germany itself, and also in other countries including the U.S., have hit the *banks hard.*

Dr F. Wilhelm Christians of Deutsche Bank: warnings.

Big write-offs

The extent to which increased write-offs and provisions have eaten into operating profits can be seen from just a few examples. Dresdner Bank, for example, increased its write-offs and provisions in 1982 from DM 159m to DM 401m, Commerzbank from DM 192m to DM 603m, Bayerische Vereinsbank from DM 86m to DM 226m, Bayerische Hypotheken und Wechsel Bank from DM 48m to DM 306m and Deutsche Bank from DM 915m to DM 1.1bn.

All the figures are for the West German parent banks only, not group consolidated figures which are generally somewhat higher.

The scale of these increases in provisions has meant that although banking profits at the operating level surged in 1982 net profits after write offs and reserves were little changed, in some cases lower. Hence the minimal, or only slightly increased dividends.

The difficult challenge posed for shareholders however is how to interpret the big increases in provisions. To what extent do they represent real losses?

West German banks have immense flexibility about how much and when they put aside loan loss *provisions* against anticipated losses.

For the more profitable banks, very conservative reserving policies are being adopted, a policy which will mean that for some five years or so earnings will be sheltered from tax.

Only in the worst case of countries declaring a moratorium on debt and interest re*payments might some of the* country risk provisions being put aside be needed.

In the meantime, they represent a source of inner strength to the bank which can be used later either directly and publicly to strengthen profits and retained earnings, or to strengthen hidden reserves.

Where actual losses have been incurred however flexibility ends. They must be written off. The unhappy fact for West German bankers is that last year saw some very big loan losses.

The collapse of AEG-Telefunken alone in Germany involved write offs of some DM 1.8bn for the company's banking consortium, some DM 250m at least accrued to the Dresdner Bank, AEG's lead bank.

AEG was one of 12,000 corporate bankruptcies last year and Dr F. Wilhelm Christians, joint chief executive of Deutsche Bank has warned that—at least in the opening months *of this year the bankruptcy rate* will not slow.

Spectacular cases such as AEG are not expected, but some substantial failures cannot be ruled out in say the steel or shipbuilding industries. This coupled with the risk of foreign *corporate bankruptcies and,* according to some bankers, a rise in the rate of loan losses in the consumer lending field, means that a significant part of *last year's provisions and loan* write offs were made against real losses either experienced or already looming on the horizon.

Seen from this point of view, the heavy provisions the banks made last year reflect a mixture of considerations ranging from realistic to conservative accounting, the latter reflecting in part the troubled times in which bankers are living and, in West Germany, the urgent need which some banks are facing to build up equity capital because of the tightening up which is now underway in the field of capital adequacy ratios.

Shareholders are standing at the end of a long queue at the moment.

The queue would have been even longer were it not for the big rise in operating profits which the banks enjoyed in 1982. The full extent of the increase cannot be estimated because the banks do not declare how much they have earned from their own dealing in bonds and securities, foreign exchange and precious metals.

In the case of bond trading profits, the figures were enormous. Deutsche Bank admitted to record bond trading profits which were double the figure earned in 1981.

Behind the bond trading profits were a combination of strong new issue activity and falling interest rates. It is the downward trend of interest rates, particularly in West Germany which accounted too for the surge in operating profits, a surge which in most cases, reflected substantial increases in net interest income.

Several factors accounted for the increased interest earnings in a period when credit demand was weak and volume alone was not adding to income.

One factor was that as interest rates fell the banks were able, through a much improved combination of asset and liability management coupled with for a while, a ruthless determination to make the best of a good thing, to reduce their funding costs faster than they cut the interest rates they charged their customers.

Interest margins widened significantly as a result of the banks' decisions to pay more attention to the mix of their liabilities and assets, something which if they had done it in 1977 and 1978 would have spared the likes of Commerzbank and Dresdner Bank the indignities of having to cut their dividends too sharply in 1980 and 1981 and 1982 respectively.

The decline in interest rates which began in October, 1981, when the Bundesbank cut its Lombard rate from 12 per cent to 11 per cent has continued into 1982 with a cut in March from 6 per cent to 5 per cent.

Whether this is the last cyclical easing in monetary policy by the Central Bank or not remains to be seen. Some are already suggesting this will prove to be so.

Forecasts

In any case, it is already clear that the banks cannot expect to enjoy much in the way of help from the monetary authorities this year and for this reason many banks are already warning that profitability is likely to decline, or, in cases where banks still are recovering from past errors, show some modest improvement.

Whether this implies, too, a continuation in the high level of loan loss provisions will vary from bank to bank and also according to how the world's financial system weathers the current storm.

But many West German banks still need to build up their equity base and plug some of the gaps in their balance sheets left by the losses they suffered at the beginning of the decade. This suggests that dividends are likely to be increased only slowly, and where a more generous dividend policy appears, shrewd investors will be asking themselves whether they are seeing the ground work being laid for new public equity issue.

Further nationalisation has had little effect on attitudes

Continuity rather than change

France

DAVID MARSH
Paris

WITH FRANCE'S top three commercial banks under state control since 1945, the search for profits above all else has never been the chief hallmark of the country's *banking system.*

None the less, the fresh round of wholesale nationalisations last year — which saw a further 36 banks, large and small, pass into the hands of the state — was seen, in the ideological wing, at least, of the ruling Socialist Party, as representing a clear break with the past.

The *newly-nationalised* institutions were to place less emphasis on making short-term profits, more on serving the larger interests of the French economy — *supporting exports,* saving jobs, boosting industry.

So far, no domestic break with history has taken place. M. Pierre Mauroy, the Prime Minister, expressed a touch of exasperation over the lack of change when he remarked at the end of last year: "We have *nationalised the* banks, but not yet the bankers." (Even though the Government changed the chairmen of all the 36 newly-acquired banks, as well as the previously *nationalised ones,* last year.)

Others in the Socialist and (above all) Communist Parties have gone much further in criticising the immovability of France's banking traditions. But with the system under the watchful eye of M. Jacques Delors, the *moderate* Finance Minister, and with the banks themselves run by on the whole prudent and pragmatic individuals who would not be out of *place serving* President Giscard, continuity rather than change will continue to be the watchword for the future.

The last few weeks, in which the banks have started to declare their 1982 results, have confirmed poor profitability, and general under-capitalisation by international standards, throughout the banking system. But this is hardly anything new.

Banking profits throughout the world have been hit by the recession in the industrialised West and greatly increased risks on international lending but French banks suffer from three specific problems.

France's system of credit *ceilings, the main tool to* enforce monetary discipline places severe constraints on banks' profitability from domestic business — and the credit *ceiling limits have* been tightened further this year.

Additionally, with their shares wholly in the hands of the state and with budgetary funds in short supply, the banks are unable to raise equity capital from the private markets to underwrite expansion plans and *reduce risks.*

Finally, French banks (nationalised or not) are always more likely than those in other countries to come under direct pressure from the state to assist restructuring of recession-hit industry.

So far, however, the pressure has been less strong than earlier feared, and the Government's decision last year to force the banks to put up FFr 6bn for newly-nationalised industries has not been repeated.

Provisions

The Finance Ministry is making clear that, since their equity capital is restricted, the banks are being given full support to build strong provisions against increased risks. Credit Lyonnais, Paribas and the Suez financial and industrial holding group have all reported sharply higher operating profits for 1982, offset by even bigger increases in provisions, which have significantly depressed net profits.

Banque Nationale de Paris, which also increased provisions strongly, is the only large bank so far to have boosted net profits last year, which for the group were up by 11 per cent.

The other main feature of the past few weeks has been the emergence of a series of skeletons in the banks' cupboards, mostly put there during the pre-nationalisation era.

Credit Lyonnais has been forced to admit that it paid an overall FFr 1.6bn — nearly three times the original purchase price — to take over and repair financially the trouble-hit Slavenburg's bank of Amsterdam. This was one of the important elements hitting the bank's 1982 results.

Credit du Nord, the large retail bank, has taken big provisions on its involvement with the Ribourel property development company, which put the bank into the red last year and have forced it to ask for a capital increase from the Government and Paribas, which jointly own its shares.

The former Rothschild bank, now called Europeenne de Banque, is realised to have been in very poor financial shape when nationalised last year. Its property and industrial shareholdings have been taken over by the Suez group as part of a restructuring exercise.

Similarly, losses have been confirmed for Banque de l'Union Europeenne, the former house bank of the Empain-Schneider group. The bank is being absorbed into the Credit Industriel et Commercial group, which itself is being reorganised and its links with Suez attenuated.

This reorganisation is part of M. Delors' gradual reform of the banking system, which, after a series of mergers of smaller banks with larger ones, should see the overall number of separate nationalised banks reduced by half to just over 20.

The Government is taking discreet pleasure from the fact that one of the most serious banking difficulties has surrounded an institution which escaped the nationalisations. This is Banque *Privée de Gestion Financière,* 51 per cent owned by big foreign banks, which has been faced with serious losses over mis-fired property development.

Ranked high in the profit ratings

Britain

ALAN FRIEDMAN

BANKING in the UK remains a highly profitable business. The interest margins are still better than in many other countries and despite a reduction in the amount of funds which banks utilise from their zero-interest bearing current accounts, they still have access to a sizeable amount of "free money" from customers.

Bankers will dispute this immediately, claiming the cost of cheque processing and other services prevents them from anything like "free money" deposits, but there is nonetheless little doubt that UK banks are among the most profitable in the world.

Witness the performance of the UK's Big Four clearing banks in 1982: In a year which saw both international lending crises and domestic UK corporate bankruptcies reaching toward record levels, the Big Four clearers made a combined pre-tax profit of £1.5bn, a drop of less than £200m on the 1981 figures. And this was in a year which saw the bad debt provisions of the Big Four more than doubled to a record £962m.

Although the Big Four do have sizeable problem loan exposures to Latin America, they are not as committed (except for Lloyds Bank) as many major U.S. banks. UK banks, however, have a more perennial problem, namely the many casualties of Britain's lengthy recession.

Each of the major banks has some form of "intensive care unit" for British companies, although they prefer not to use such a dramatic term to describe the departments which attempt to head off receiverships *and* try to nurse *ailing* business through the depressed British economy.

Midland Bank, for example, has some £350m of loan exposure among the 80 companies in its "intensive care unit." Sir Donald Barron, Midland's chairman, said in March that he felt the trend in this division was getting "slightly better."

National Westminster Bank, which saw its bad debt provisions rise sharply from £92m in 1981 to £229m last year, disclosed that £120m of its £188m in *specific provisions* came from domestic lending.

Senior British bankers continue to warn both privately and publicly that even if the UK economy is now approaching a lasting—rather than politically inspired—economic upswing, a number of British companies could still fail as a result of the lag factor between recession and recovery.

In practice, there are three *main* areas of concern *for* Britain's major banks; these can be summed up as the threat of more bad debt provisions, the possible wrath of the Thatcher Government in the form of another windfall profits tax and finally, perhaps most alarming, the threat of genuine competition for customer deposits from Britain's increasingly innovative building societies.

None of these areas are completely within the control of the banks. Bad debts will depend upon the domestic and global economy and the extent to which banks are able to carry on supporting the ailing industrial companies.

The issue of *a special* tax on bank deposits, the so-called windfall profits tax, is every UK bank chairman's private nightmare. Such a tax has only been levelled *once*, but it is a continuing fear for bankers nevertheless. The situation is not *helped* by the fact *that* Mrs Thatcher and Britain's top bank executives do not have a particularly harmonious relationship.

At a private meeting between the Prime Minister and senior bankers *in February*, Mrs Thatcher lambasted the banks for having put up base rates in January while she was out of the country on a visit to the Falklands.

BRITAIN'S BIG FOUR CLEARING BANKS, 1982

	Assets (£bn)	Growth per cent	Pre-tax profits (£m)	Change per cent	Bad debt provisions: End 1982 £m	(1981)
Barclays	59,046	21.11	495.2	−12.60	330.2	(146.4)
NatWest	54,487	25.82	439	−11.13	229	(92)
Midland	47,999	17.03	251.4	8.27	196.1	(113.5)
Lloyds	34,457	19.72	315.9	−18.07	218.9	(85.7)

The banks attempted to tell Mrs Thatcher they were only responding to the normal movement of money market rates, which is after all the main way UK interest rates are influenced, but she apears to have left the meeting unconvinced.

Bankers fear the prospect of a special tax from the Thatcher Government almost as much as they do the prospect of a Labour Government coming to power. As the latter appears less likely they are devoting most of their political lobbying efforts to a campaign against any repeat of a windfall tax.

Perhaps the most serious concern for the UK banking oligarchy, however, is the competitive push from Britain's building societies.

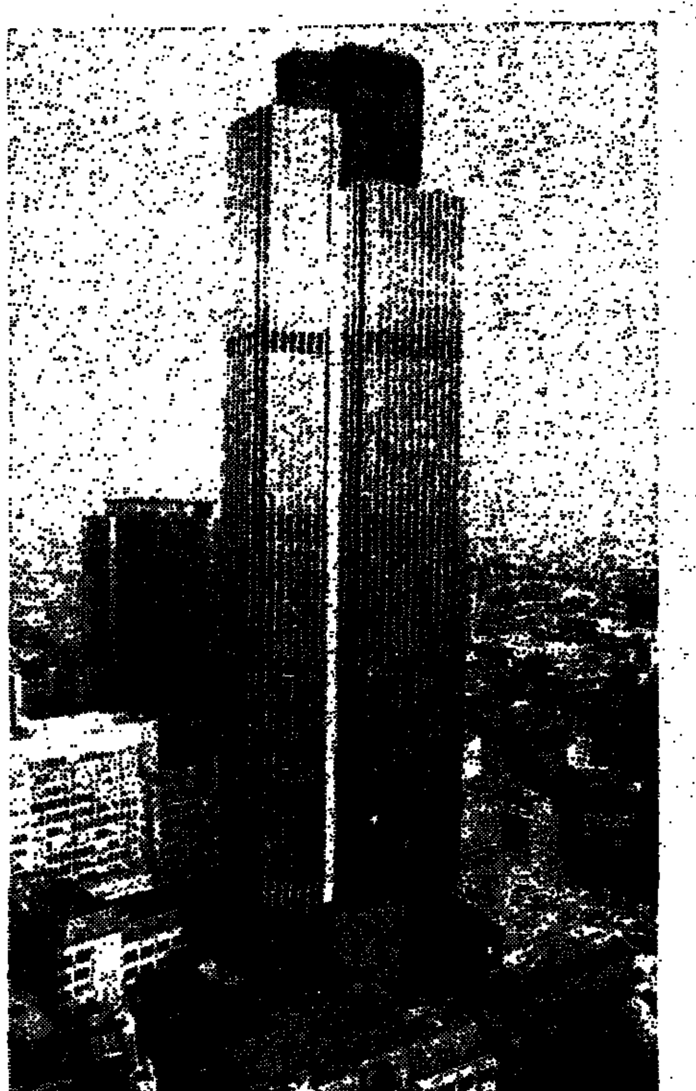
The past year has seen a major increase in competition for deposits, and the building societies are making progress. Barclays Bank and others have been less than pleased that the Abbey National Building Society and the Co-operative Bank have joined forces to offer an interest-bearing current account.

Likewise, the banks and building societies are locked in a competition to develop nationwide cash dispenser networks within the next year.

Barclays Bank's response to the new schemes and longer opening hours being offered by building societies was to *announce* the *start* of Saturday morning openings last year. Barclays is opening around 400 branches—one in five—on Saturdays in an attempt to lure more deposits.

The major banks have countered the societies with their own home loan schemes. But now, some two years after the banks made a major lunge *for* mortgage business, most bank home loan portfolios are full. Only Natwest expects to continue allowing its mortgage business to grow in any real way this year.

The growth of competition for High Street deposits is almost certain to develop further this year and for the customer at least, this is not a bad thing. Greater competition in a freer market can only mean a greater variety of financial products and services. The one major coup which banks could score—offering a genuine interest bearing current account rather than the string-attached hybrids now on offer—seems too painful for the Big Four to consider seriously.



Trevor Humphries

RECORD LEVELS—in a period which saw both international lending crises and domestic UK corporate bankruptcies reaching towards record levels, Britain's Big Four clearing banks last year made a combined pre-tax profit of £1.5bn, a drop of less than £200m on the 1981 figures. Above: a view of the National Westminster Bank Tower, as seen from the roof of the Stock Exchange.

Impact of Budget strategy geared to reduce demand

Virtual collapse in demand for funds

Ireland

BRENDAN KEENAN
Dublin

IRISH BANKING *has* been dominated in the past year by the problems posed by the country's attempts to effect rapid adjustment of the public finances. If anything, this trend has accelerated as a result of the *February budget brought in by* the new coalition government of Dr Garret FitzGerald.

Budget strategy was geared to reducing demand in the economy, so as to produce a rapid fall in the balance of payments deficits. *This* was more than eight per cent of GNP in 1982 but is projected to fall this year to around I£500m, or less than 4 per cent of GNP.

Bankers welcome the thrust of these policies, although they will be *hoping* that further adjustment comes more from cuts in government spending than taxation. But they have had to cope with the effects on their customers—and the effects continue to be painful.

The *most marked* result has been a virtual collapse in the demand for funds. Retail sales in Ireland fell 5 per cent last year and may decline by as much again in 1983. In the circumstances there has been substantial de-stocking and very little investment. The banks have moved from a position of being generally over-lent three years ago to being under-lent today.

This Irish cnetral bank has operated a system of credit controls for some time, on the theory that, in an open economy like Ireland's, one cannot control that money supply but can influence its sources between domestic and external sectors, with a view to influencing the balance of payments.

Credit limits

The Irish banks have frequently chafed against this particular bit but in 1982 *borrowers did not take up the* full 14 per cent growth allowed by the central bank. Indeed, total growth in credit may not have exceeded 7 per cent. It seems unlikely that credit growth will threaten the targets this year either.

The credit limits are a source of irritation to the merchant banks, particularly the branches of foreign banks which set up in Ireland in the 1970s. Bankers like Mr Vincent Reilly of Algemene Bank Nederland's Dublin branch argue that they inhibit competition for business among the merchant banks.

Even so, margins have been tight in the wholesale sector, with supply generally exceeding demand. The one bright spot has been the Irish nationalised industries, whose demand for loans is estimated to have increased by 40 per cent. This may be a limited phenomenon as the Government moves to rein in their expenditure.

The most dramatic effect on the big four Irish banks—Allied Irish, Bank of Ireland, Northern (a subsidiary of Midland Bank), and Ulster (a subsidiary of NatWest)—was in the area of bad debts provision.

Bank of Ireland made a bad debt provision of I£26m in 1981-82, compared with I£11m in the previous year. Allied Irish's provision was lower at I£17m, although it does not include provision for interest on bad debts.

Casualty

Northern Bank was the major casualty in terms of results, with pre-tax profits falling from *£8.4m to £3.7m in sterling terms.* Bad debts were largely to blame but a lower tax charge and the end of the UK bank levy enabled the bank to increase net profits from £1.5m to over £2.9m. Considerable re-organisation of the bank's *activities is under* way.

There was no escape for the banks from levies in the Irish Republic. A total of I£25m was raised in bank levies in 1982 and a similar amount was imposed in the February budget. The best that Finance Minister Mr Alan Dukes could promise was that levies would be "phased out."

A *final factor* influencing the Irish banks' performance in 1982 was the very sharp rise in staff costs of the order of 25 per cent. This was the result of a comprehensive agreement on the introduction of new technology, which is already evident to the customer in the shape of automatic cash dispensers. The impact of staff costs will not be so marked in 1983 and the banks believe the deal will begin to pay for itself after four years.

One response to difficult Irish conditions, which is open to Allied Irish and Bank of Ireland but not to the subsidiaries, is to expand overseas. The most notable example was the acquisition by AIB of a controlling interest in the U.S. bank First Maryland Bancorp.

The deal cost AIB over I£100m and it catapulted the bank into being far and away Ireland's largest. Perhaps more important, it came when almost 50 per cent of AIB's business was already outside Ireland, although chief executive Mr Patrick O'Keefe was quick to say that there would be no movement of funds out of Ireland as a result of the acquisition.

It is thought that, even before the First Maryland deal, B of I had a smaller share of its business overseas. The Irish banking community will be watching for any similar spread of interests by Ireland's oldest bank and wondering if AIB's greater geographical spread will begin to be reflected in results.

WORLD BANKING XIII

Societe Generale de Banque, Belgium's largest bank, had BFr 370bn tied up to the public debt at the end of 1982, compared with BFr 292bn at the end of the previous year.

Belgian banks have managed to pursue their traditional support for public financing while at the same time increasing their profitability

Profits still good despite state borrowing burden

Belgium

PAUL CHEESERIGHT
Brussels

CONFIDENCE is seeping back into the Belgian economy and bankers are expecting, after some difficult years, the return of more flexibility to their operations.

The annual reports of the banks reflect satisfaction that although the Government may not yet be bringing down its deficit, at least the deficit is not becoming worse. This is a significant point for the banks because, noted one banker, traditionally the Belgian banks have owned a large amount of public debt, running to over a third of deposits in Belgian francs.

As the demands of the Government have become more pressing so the amount of bank funds tied up in public debt, both loans and bills for the Government as well as lending to the public sector, has shown a dramatic increase.

Societe Generale de Banque, the country's largest bank had BFr 370bn tied to the public debt at the end of 1982, compared with BFr 292bn at the end of the previous year, BFr 220bn at the end of 1979 and BFr 101bn at the end of 1973.

But, to put this into perspective at the end of last year SGB had lent to the private sector and had international exposure worth BFr 662bn.

Last year, the Banque de Commerce noted, the banks made new credits to the Government of BFr 174bn, against BFr 128bn in 1981, and of this total more than a half was lent in foreign currency. This clearly reflected the Government's desire to protect the parity of the franc within the European Monetary System.

Instability

Such a heavy demand for funds has naturally had an effect on interest rates. Last March, as instability swept the foreign exchanges, the central bank pushed up the discount rate by 2.5 percentage points to 14 per cent. But later in the month the underlying trend in rates reasserted itself and the central bank lowered the discount rate by 3 percentage points to 11 per cent.

The discount rate is the minimum charge for central bank lending to the major financial institutions.

The banks themselves have been lowering deposit rates, with six months money fetching 7.25 per cent following a cut from 7.75 per cent.

The lower trend may signal a revival in corporate borrowing, particularly for investment purposes, although senior bankers observed that real interest rates are still high.

Corporate borrowing last year was in any case at a low level largely because of the weakness in the domestic economy, while company treasurers remained cautious about approaches to the banks in the face of the high interest rates.

Bank credits to the private sector last year were just BFr 198bn, not much more than half the BFr 345bn lent in 1981, but one of the striking facts about the lending was the heavy amount done in foreign currency—nearly half, according to the Banque de Commerce.

If the greater confidence noted in economic circles is maintained, with exports increasing as last year's devaluation of the franc continues to exercise an influence, and the Government can hold its demands in check, then the balance between banks' public and private lending may this year be slightly redressed.

Senior bankers reflected that the heavy demands of the Government had not created a problem about lending to private industry; they had not been in a position where liquidity reasons had prevented lending to good risks in the private sector.

In fact the relatively low level of private sector demand in Belgium has meant the Government borrowing has helped to mop up banks' funds in the face of a fractionally higher level of deposits.

And government measures to make investment in companies more attractive, as part of its overall policy of reviving industry, has meant a resurgence on the equity market and the return of companies to the Bourse for capital raising.

This could be helpful, bankers said, because company financing had in the past been done excessively through recourse to the banks, leading to narrow equity bases. Bringing more equity in would give what the bankers called "a better surface" to companies and making lending to them somewhat safer.

Despite the generally unfavourable background banks have generally been able to produce higher profits. SGB in 1982 had a 31.8 per cent increase in pre-tax profits to BFr 9bn, although its net earnings rose somewhat less—12.7 per cent over 1981 to BFr 2.2bn.

The country's second-largest bank, Banque Bruxelles Lambert, which had a rights issue last February had a 25.7 per cent rise in pre-tax profits during the year to last September to BFr 5.9bn, while its net climbed 27.7 per cent over the previous year to BFr 1.4bn.

Kredietbank, Belgium's third-largest, has a financial year ending in March. But after the first half it said it expected the favourable trend in its operating results to continue. It also observed that the economic situation at home and abroad, limited opportunities for expansion and increased the risks.

Luxembourg banks have entered a period of consolidation after last year's problems

Growth levels at cruising height

Luxembourg

PETER MONTAGNON

LUXEMBOURG'S 115-strong banking community managed last year to weather a potentially serious problem that could have jeopardised its future as an international banking centre.

Despite the default of Banco Ambrosiano Holding, the Luxembourg offshoot of Italy's defunct Banco Ambrosiano, deposits at Luxembourg banks continued to grow. Last year saw an increase of 17.8 per cent in total banking liabilities in the Grand Duchy bringing them to LuxFr 5,987bn at the end of December.

There was little sign of the wholesale withdrawals of funds that many bankers feared as the Banco Ambrosiano crisis developed. The Luxembourg authorities refused to acknowledge a responsibility for Banco Ambrosiano Holding on the grounds that it was a holding company and not a bank.

As the Bank of Italy also refused to come to the rescue of Banco Ambrosiano Holding this seemed to open up doubts over whether depositors in an offshore centre such as Luxembourg really were protected by the rather shadowy "lender of last resort" facilities which are supposed to act as a guarantor of confidence in the euromarkets.

At the same time, however, growth in banking liabilities in Luxembourg has now tended to slow. Last year's rate of increase was the slowest since 1976 and way below the 29.7 per cent advance in 1981.

The number of banks operating in the Grand Duchy has also now begun to stabilise. All of this suggests that Luxembourg is now past its days of rapid expansion and has reached a natural cruising altitude.

Senior bankers in the Grand Duchy tend to confirm this impression. Objectives nowadays concentrate on two main areas—improving profitability and diversifying away from traditional lending business into more profitable fee-generating activities such as portfolio management.

Over the past few years Luxembourg has modified some of its rules to enhance its attraction compared with other similar centres such as Switzerland.

In the first objective Luxembourg bankers seem to have been highly successful last year. This may not show up immediately in published results because of Luxembourg's exceptionally generous regulations allowing large tax free provisions against potential loan losses. Reported net profits in the Grand Duchy nowadays tend to be very small, but behind this last year lay very strong pre-tax operating earnings.

Senior bankers estimate that operating profits last year rose by more than 50 per cent to an aggregate level of LuxFr 37bn. A further sign of buoyant banking business in the Grand Duchy is that employment in the banking sector rose by 550 last year, its largest increase since 1969.

Backbone

Yet Luxembourg has still failed to advance very far down the path towards investment banking. Its backbone remains a large money market. Interbank deposits accounted for LuxFr 4,296bn or nearly 72 per cent of total banking liabilities.

Out of this pool of money banks finance their lending which is heavily orientated towards European corporations, although the assets side of their balance sheets shows up a relatively large proportion of interbank business at around 51 per cent of the total.

German banks, too, continue to dominate the Luxembourg scene with 30 institutions represented. This is followed by 14 Scandinavian banks, 13 institutions from Luxembourg and Belgium and 10 from the U.S. British banks have always been reluctant to set up operations there.

This year profits at Luxembourg banks are expected to continue to rise sharply. They will be helped by the large provisions already established by the banking community which are in effect little more than interest free deposits. Despite the provisions Luxembourg bankers argue that their lending is largely sound. They are more afraid in future years that the fiscal authorities will try to claw back some of these provisions in deferred tax than that the loans provided against will actually turn out to be sour.

Profits at Luxembourg banks are expected to continue to rise sharply. Above: a branch of Banque Générale at Remich.

WORLD BANKING XIV

A more circumspect attitude to investment and risk is expected to be adopted this year

Time for a re-evaluation

Netherlands

WALTER ELLIS
Amsterdam

WHAT'S in a name? In the case of Slavenburg's Bank, sixth largest commercial bank in the Netherlands, quite a lot that its new owners would like *the world to forget*. A police raid, searches and accusations of fraud, a transfers scandal, two arrests and the resignation of a leading director. Accordingly, Slavenburg's is to be no more. Henceforth it will be known as Credit Lyonnais Bank Nederland after its major shareholder, Credit Lyonnais of France. The hope is that the new rose will smell sweeter.

But while the Slavenburg's affair has been the big story in Dutch banking over the past 12 months, hitting the headlines at home and abroad in a manner that can scarcely enhance the sector's conservative image, there have been other tales as well, not all with happy endings.

It would be too much to say that banking in the Netherlands is in trouble. The traditions are too old and the experience too great for that. Yet there is a feeling around that the bad patch in which many institutions are stuck is more than simply the product of bad luck. Many bankers realise that it is time to re-evaluate their response to the market, concentrate on certain fields of activity and then get to work in earnest. The next 12 months—especially if the upturn is confirmed—could see an overall growth in profits as well as a more circumspect attitude to investment and risk.

Slavenburg's lost Fl 203m last year, largely because of fraud and the need, in consequence, to increase its general provisions. But the Nederlandse Credietbank, 31 per cent owned by Chase Manhattan of the U.S., saw its earnings plummet by 62 per cent to a mere Fl 7.3m; the Nederlandsche Middenstandsbank (NMB) dropped 39 per cent to Fl 90m. Amsterdam-Rotterdam Bank (AMRO), the second biggest banking group in the country, followed a bad 1981 (down 5 per cent) with a worse 1982. Net profits plunged by just under 38 per cent to Fl 163m.

The biggest commercial bank of all, Algemene Bank Nederland (ABN) did somewhat better, recording a net profit of Fl 352m—an increase of 5 per cent. Rabobank, the awakening giant of the co-operative sector, saw its earnings edge up by 3 per cent to Fl 1.33bn.

The smaller banks produced a mixed bag of results. The mortgage banks, after two very bad years, are showing some signs of incipient recovery. Overall, the picture is of a sector battered by debt, at home and overseas, trying to conserve its strength in preparation for the upturn to come.

The biggest commercial bank in the Netherlands, Algemene Bank Nederland (ABN) increased its profits by 5 per cent last year, to Fl 352m.

The image of the banks has not been helped by the allegation, substantially upheld by the Government and the central bank, that many High Street branches of many banks in recent times have been willing to trade in "black" money.

Laundering

Last December the Dutch left-wing magazine, Nieuwe Revu, reported that almost every branch of every bank they visited in the Netherlands had been prepared to assist its clients in the "laundering" of undeclared deposits. The revelation caused a deal of obloquy to be heaped on the heads of bankers, not only by the Minister of Finance and the Governor of the central bank but by the press and the general public. Suddenly, Dutch banks, previously regarded as models of probity—at least by those not pressing "black" notes over the counters—were cast in the role of accessories before the fact.

The Dutch Bankers Association acted at once and issued a new set of guidelines for accepting cash from clients. Mr Herman Ruding, the austere Minister of Finance in the Centre-Right Government, pointed out that the new rules should be adhered to strictly but admitted that the chances of tracing a "hot money" deposit were a million to one against. Mr Willem Duisenberg, the admired and personable Governor of the Nederlandsche Bank, warned from his tower block in Amsterdam that banking ethics were central to the profession and said that bank managers must never succumb to the temptations offered by the existence of the black money circuit.

It must be said, however, that while some banks have obviously been indulging in activities that infringe the tax laws of the Netherlands, the problem stems not from banks but from the determination of large numbers of businessmen not to pay tax on their full incomes. Mr Andre Battenberg, the outspoken head of ABN, said recently that the real focus of the black money circuit was the transfer abroad of Fl 1,000 notes. Billions of guilders, he said, had disappeared out of the country illegally since January and the only thing the banks could do about it was to note the extent of the exercise by counting up the notes sent back to them in the normal course of international transfers.

If Mr Battenberg is right, then the flight of capital stuffed into the briefcases and back pockets of businessmen is at least as serious as the processing of doubtful money by the banks. Either way the problem is essentially one for the Government, whose tax laws have prompted the cash exodus and who are elected to see to it that the law is enforced.

Any survey of Dutch banking could not avoid the issues raised above—especially after the dramatic raid on Slavenburg's headquarters and two leading branches in February by more than 100 officers of the Dutch fiscal police. But it would be quite wrong for it to be assumed that banking practice in the Netherlands has become a shady under the counter affair. That aspect of the business should more properly be seen as scum to be brushed from the surface. Even Slavenburg's—Credit Lyonnais Nederland—has never come under suspicion as an institution, only as a bank employing certain senior officials whose activities have interested the police.

The new Slavenburg's, under the supervision of Credit Lyonnais, has the support of the central bank and is expected to play an honourable part in Dutch business life. This much goes without saying for the rest.

ABN and AMRO each have established reputations around the world for possessing a full range of banking skills. Each is a leader in the dynamic international bond sector and both are playing an active role in the expansion of Dutch trade. Rabobank is slowly easing itself into the international market with the establishment of key offices abroad (the latest in London) and in March issued its first-ever bond. NMB is also projecting itself increasingly as an international banking house, with 10 overseas locations, while NCB is undergoing restructuring in a bid to re-build profits for the mid-1980s.

Exposed

So long as the world economic recession lasts, debt provisions are bound to rise and will inevitably depress the results of the Dutch banks. Bankers are aware, too, that the debt problems of the Third World, to which some of them are exposed, are far from resolved and will hit them for some time to come.

In addition, there is the problem of staff numbers and salaries. A new agreement will lead to a 5 per cent cut in working hours for the country's 19,000 bank employees in return for a pay-pause. The scheme will also lead to the part-time employment of 25,000 young people, with a promise of full-time recruitment at the age of 23.

The underlying trend is positive and with their internal reorganisations complete and their reserves firmly buttressed, the Dutch banks appear set for a more stable 1983.

Banco Ambrosiano scandal fades into the background

Interest rates the major issue

Italy

RUPERT CORNWELL
Rome

IN ITALY even the most lurid of scandals cannot run for ever. That lesson of national life is now on display in the country's banking sector.

The collapse of Banco Ambrosiano last summer may still generate bitterness and lawsuits in the international banking community, but at home it has long since given way as a talking point to whether interest rates charged by commercial banks should go down a great deal faster than the latter would like.

That interest rates in Italy, despite its high inflation, are at last beginning to follow the pattern in the world outside is now beyond doubt.

Cautious

Last month, the Bank of Italy cut its discount rate from 18 per cent, where it had been since the previous August, to 17 per cent. The cautious extent of the step reflected the contrasting pressures exerted by an inflation rate still running at 16 per cent, and the need to finance a public sector borrowing requirement which might exceed L75,000bn, or 15 per cent of gross domestic product.

The commercial banks, as usual, have been a great deal slower to adjust downwards their rates to borrowers than they are to increase them.

In the first three months of 1983, hectoring from industry and the politicians produced only two half point reductions, in the rate charged to prime customers, bringing it down to 19.5 per cent from 20.5 per cent.

Shortly after Easter, the Central Bank gave further sign of its willingness to see a further decrease, by lowering the bank rate. By the end of April, however, there had still been no response from the commercial banks.

But the pressure on them to follow the Bank of Italy's cautious pointer is likely to remain considerable and not only from industry, which claims it is being unfairly penalised, but also from the Government parties, who will almost certainly be entering a general election campaign this June.

But when political considerations are removed, the arguments main strands are those of always. The banks maintain that they cannot lower interest rates for fear of frightening away depositors, and thus endangering their own capacity to help fund the Government's huge borrowing requirement. But that reasoning is slightly undermined by the latest small reduction in the Treasury's key three, six, and nine-month bill rate.

The numerous critics of Italy's banking system retort also that the scope for an easing of interest rates exists, given the present slack level of loan demand, and the real possibility that failing oil prices will lead to further—if modest—declines in inflation.

A further consideration is that the spreads between "active" and "passive" rates, i.e. those charged to lenders and paid to depositors, is among the highest of any country in Europe: proof, it is claimed, of the inefficiency and bureaucracy of the Italian banking system.

One cumbersome restraint could be lifted this summer, if the Bank of Italy fulfils its proclaimed intention of removing the system of maximum annual permitted credit ceilings. The present sluggish state of the economy and low loans demand could embolden the Central Bank to keep its promise. On the other hand, in Italy a preference for rigid control on banks exerted from the centre dies hard.

But that control is not always sufficient, as the Banco Ambrosiano affair so vividly demonstrated.

Subtle

Within Italy, the scandal is increasingly forgotten, but its more subtle consequences are still at work, especially abroad. Chief among them is a loss of prestige on the part of the Bank of Italy, for its failure to root out trouble much earlier—and the treatment meted out to those foreign banks which agreed to lend money to Banco Ambrosiano Holding in Luxembourg rather than Banco Ambrosiano in Milan, even though the money lent was poured down an identical drain, by identical people in Milan.

There are some grounds for thinking that agreement will be reached between the Rome authorities and the angry creditors. The former have aleardy offered $100m. The latter are insisting on reimbursement of the full $450m lent. A compromise does not seem impossible.

If it is not, then the international financial community may settle down to enjoy rich fare in the courts. Ambrosiano in Luxembourg is suing the Nuovo Banco Ambrosiano in Milan, successor to the ill-starred bank destroyed by Sig Roberto Calvi, while the 88 creditor banks have already filed suits in Milan to recover their money. Whether their case is watertight remains to be seen. At a first glance, it cannot lightly be dismissed.

There is also the tantalising possibility that the largest Italian bank, Banca Nazionale del Lavoro, may end up suing itself. BNL is both the second largest single creditor of Ambrosiano Luxembourg, and one of the seven banks which owns the new Ambrosiano in Milan.

To whet the appetite of spectators further, the possibility, however remote, exists that someone (maybe Ambrosiano's liquidated subsidiary in the Bahamas, Ambrosiano Overseas), may take the Istituto per le Opere di Religione (IOR the Vatican Bank) to court. The problem, in that case, is where?

It was, after all, the IOR that technically owned the ten little companies in Panama and Luxembourg through which the $1,200m at issue vanished. And although a special commission set up by the Rome Government and the Holy See has been touring the farflung outposts of the ex-empire of Sig Calvi to assess damage and responsibility, there is as yet no sign of a compromise emerging.

The disaster, however, may have a few beneficial after effects, including a much-needed clarification of IOR's status as both a *domestic* and a foreign bank simultaneously, and more effective scrutiny of the offshore operations of Italian banks.

The Ambrosiano collapse has already moreover subtly changed the private/public balance in Italian banking. A direct consequence was the sale of Istituto Bancario Italiano, owned by Sig Carlo Pesenti, to the state-owned Cassa di Risparmio delle Provinc Lombarde (Cariplo).

Nuovo Ambrosiano itself is no longer genuinely private, in that 59 per cent of its capital is held by public sector banks.

More than ever today, Italian banking is a public sector affair, with only 20 per cent of deposits controlled by privately-owned banks.

WORLD BANKING XV

Last year profits of the big five banks increased by nearly 14.3 per cent helped by higher dollar and gold rates

A good year for profits

Switzerland

JOHN WICKS
Zurich

The foreign exchange room at Credit Suisse, Zurich.

SWISS bankers had a good year in 1982, with profits rising much faster than overall business volume.

Net earnings of the Big Five improved by nearly 14.3 per cent after balance-sheet growth of only 8.3 per cent—and this due, in part, to higher dollar and gold rates—and those of the 29 cantonal banks by almost 12 per cent following a similar increase in their balance sheets of 7.4 per cent.

With very few exceptions, other banks have been reporting the same sort of boost to profitability.

An important factor in this development has been the return to normal of interest rates. In 1981 the jump in U.S. and Euro-market rates led to a strange distortion of interest patterns, short-term investments becoming much more attractive than long-term money.

Since Switzerland has the largest mortgage debt per capita in the world, as well as the highest savings rate, the banks found themselves in considerable refinancing difficulties when clients deserted the traditional low-interest savings books to invest in the money market.

Temporary toss

By the autumn of 1981, bankers were claiming that virtually every domestic loan meant a temporary loss from the bank.

During last year, short-term rates fell sharply, however, with a resultant broadening of interest margins. The leading banks were able to increase their overall net interest income by between 17 and 45 per cent in 1982, a major factor in the improvement of earnings.

Even more relieved were cantonal and regional banks with a high level of mortgage business, many of whom had felt seriously jeopardised by the domestic interest squeeze.

The healthy state of the capital market also helped the banks' profit-and-loss accounts, reflected both in higher commission earnings and in better yields on securities holdings. Most—though not all—banks benefited at the same time from an increase in income from foreign-exchange and precious-metals trading.

The Swiss Banking Commission, in fact, claims that in recent years banking has not been as lucrative a business as most people believe. A study for the period 1979-81, details of which were published last month, shows a "downward trend" in actual profitability, the Commission contends.

SWITZERLAND'S BIG FIVE
(Figures in SwFr m)

	Union Bank of Switzerland 1982	1981	Swiss Bank Corporation 1982	1981	Crédit Suisse 1982	1981	Swiss Volksbank 1982	1981	Bank Leu 1982	1981
Balance sheet total	106,353	93,738	96,816	87,555	73,497	73,578	19,737	18,762	9,346	8,590
Advances to clients	47,042	43,085	39,562	38,271	36,171	36,996	14,026	14,199	4,741	4,483
Clients' deposits	67,393	54,926	65,294	52,833	47,811	43,180	16,150	14,777	3,049	2,863
Capital resources*	5,475	5,311	5,047	4,804	4,812	4,542	1,141	1,126	640	582
Net profits	438	382	370	322	303	276	51	36	32	30

* Published capital plus reserves after dividend

This resulted from the need of numerous banks to cut back their transfers to unpublished reserves—or actually to call part of these in, so as to show unchanged or improved net profits.

Last year's results admittedly look much better, Commission director, Bernhard Müller said in Berne recently, though he added that it remained to be seen how great the banks' requirements for additional provisions will have been.

Th need to put money aside for a rainy day has certainly grown considerably. Although the Swiss banking system is much better off in respect of foreign sovereign and corporate risks than that of most other financial centres, the large-scale international operations in which it engages have brought with them the danger of at least some potential losses.

As Dr Edwin Stopper, chairman of Bank Leu, pointed out at the March AGM, substantial risks are also inherent in the placing of Swiss banks' money with foreign counterparts, should these founder because of their own loans to "problem countries."

At the same time, domestic credit business is nothing like as copper-bottomed as it used to be. More and more Swiss clients are getting into difficulties in the light of national recession.

With Government support rare indeed, it remains up to the banks to help keep failing companies afloat.

In the past year, the banks have drawn the consequences and been very cautious in the granting of new advances.

Nevertheless, there has been no real withdrawal from the field of existing credit commitments. The bankers agree with the National Bank that solidarity in the sovereign-risk sector is essential to protect the world payments system — and the banks themselves — while for reasons of national polity domestic "rescue programmes" have become the order of the day.

Between 1976 and 1982, the two biggest banks, Union Bank of Switzerland and Swiss Bank Corporation, have alone granted direct "financial contributions" to ailing companies of SwFr 322m and SwFr 119.5m, respectively, as well as building up credit lines under moratorium agreements of SwFr420m and SwFr 424.4m, respectively.

Watchdog

Increased risks have as yet had no really negative effects on Swiss banks, which are now profiting from the high capital-ratio requirements which many of them have complained of in the past. However, the Banking Commission—as watchdog of the financial scene—wants to be quite certain that there is enough money on hand to meet any emergencies. This is why the Commission is doing all it can to determine the full and consolidated risk exposure of banking concerns and why banks have now, within four months of the closing of their 1982 or 1982-83 accounts, to provide details of sovereign risks, their evaluation of these risks and the corresponding value adjustments in their accounts.

While the Commission will refrain from setting up guidelines, it does intend "to approach individual banks where necessary."

There is little carping at this arrangement, though some banks are unhappy at official moves against the forming of arm's-length holding companies to shore off affiliate operations from consolidation. A test case this spring has been the order to Crédit Suisse to consolidate its CS Holding operation for purposes of capital-ratio calculation.

Generally speaking, Swiss banking is liable to be subject to more control in future. At first glance, this might not seem to be the case; early this year, Parliament rejected three alternative motions to impose a new tax on fiduciary accounts, while it has since joined the governing Federal Council in advising the electorate to throw out the "Banking Motion" supported by the Social Democrats and the trade union movement when this comes up for the popular vote next year.

Nevertheless, political pressure continues to be brought to bear on the banks—partly in a governmental attempt to "offset" the left-wing referendum motion—via what retiring Crédit Suisse chairman Dr Oswald Aeppli calls legislative inflation.

With the so-called bank-client tax rejected, however, and the referendum motion unlikely to find favour with the voter, things do not look all that grim.

Attention is now fixed mainly on the final provisions of the revised Banking Act and such questions as the reporting of unpublished reserves, the insuring of deposits and the removal from the penal code of the offences "negligent breach of banking secrecy" and "unsuccessful incitement to contravene banking-secrecy regulations."

Whatever the case, the banks seem confident enough about this year's business. Even this early, many of them have already forecast good results again for 1983.

Last year was a year of consolidation for credit institutions in Austria

Low credit demand may impair earnings

Austria

W. L. LEUTKENS

SLOWER GROWTH and a pronounced decline of interest rates made 1982 into a year of consolidation for credit institutions in Austria. The outlook for this year is for continued consolidation, though low credit demand and a stabilisation of interest rates is likely to impair profits.

Last year's decline in interest rates improved the profitability of the industry since it acted more quickly on the cost of deposits than on assets. But savings deposit interest is a politically charged matter in Austria. The trade union federation, always a power in the land, has frequently exerted pressure to prevent too fast a decline of interest on savings.

Savings deposits are the most important source of primary deposits in Austria. The all-Socialist Government of Dr Bruno Kreisky, now defeated at the polls, had created great uncertainty by a proposal to deduct a withholding tax from interest payments. In the light of the election result, that proposal looks dead.

The argument about the withholding tax may sound like a storm in a teacup, were it not for the completeness of Austrian bank secrecy. The law permits the opening of anonymous accounts and denies even the bank a right to demand identification from a depositor unless he volunteers it. So savings books have become a popular and quasi-legal means of tax evasion. At the same time the system provides an easy flow of deposits for deposit takers and banks of every kind. It could be impaired by a withholding tax.

Another influence calculated to slow down the decline of interest rates is exerted by the budget deficits of the federal Government. Judging by first quarter trends, the Government debt will rise this year from Sch 343bn to Sch 400bn this year. What is notable about the figures is that they are low by international standards—some 10 per cent of GDP at the end of 1982—but are also rising fast. The new Government, too, will find it hard to close the gap.

The steep increase of state indebtedness since the mid-1970s has occasionally caused discussion in Vienna of Austria's creditworthiness. Little or nothing of that has been noticed in international credit markets; an issue of $150m in notes made in New York recently received its due triple A rating. Moreover, Austrian demands on the international market should fall steeply since the country has got its current external account under control. A deficit of Sch 71bn in 1981 looks like turning into a modest surplus this year.

Comecon debt

A questionmark overhangs the exposure of Austrian banks and exporters to Eastern Europe. Just over a year ago gross Comecon debt to Austria was estimated at $5.4bn, a third of it owed by Poland. The overall amount does not appear to have increased significantly since.

But the Polish situation must have been a main reason why the largest Austrian bank, Creditanstalt-Bankverein, set aside Sch 100m from its operating profit in order to double its general provision for country risks. Altogether the accounts show a transfer to open reserve of Sch 135m, write-offs of Sch 148m and general provisions of Sch 207m. In addition one must suppose, internal reserves were increased.

Creditanstalt increased its balance sheet total by 13 per cent in 1982, compared with the 11 per cent of the country's second largest bank, Girozentrale and only 8 per cent in the case of Oesterreichische Laenderbank. The latter followed an especially cautious policy, since it is still labouring under the consequences of several spectacular bankruptcies among its Austrian clients in 1980 and 1981.

To get over those disasters Laenderbank required state help. It shows in the accounts for 1982 as Sch 2.7bn of irrecoverable claims which have been underwritten by the Government and income of Sch 329m received from the Government in lieu of interest on such claims. The Sch 2.7bn will have to be written off over the years.

With this assistance Laenderbank has been able to resume the payment of dividends on its ordinary share capital and to call for a capital increase to keep capital ratios within the limits set by regulatory law. In other words, the worst is over—but the bank is not yet out of the wood.

Austria's Nine Largest Credit Institutions	(Balance sheet totals Sch bn — end-year) 1981	1982
Creditanstalt-Bankverein	243.0	277.1
Girozentrale*	176.7	195.5
Oesterreichische Kontrollbank†	140.9	145.4
Oesterreichische Laenderbank	133.1	144.3
Zentralsparkasse, Vienna††	122.3	131.4
PO Savings Bank	94.5	100.4
Genossenschaftl Zentralbank**	95.4	108.8
Bank fur Arbeit und Wirtschaft	99.2	102.8
Erste Oesterreichische Sparkasse††	84.9	94.7

Source: Girozentrale, Vienna

* Wholesale bank and umbrella bank for savings banks; † Vehicle for export credit guarantee system; †† Savings bank; ** Wholesale bank and umbrella bank for rural co-operatives

Summary of Part Two of the World Banking Survey

PART TWO of the World Banking Survey will appear next Monday, May 16, 1983.

The topics examined in this 20-page section will include:

● **Retail Banking:**
As banks reassess their involvement in international wholesale banking, many are moving more heavily into the retail banking market where the risks are perceived to be less.
The survey will examine international payments systems; the pursuit of high net worth individuals; new methods of distributing banking services; money market funds and cash management accounts.

● **Correspondent Banking:**
Once the Cinderella department of the big banks, correspondent banking is now enjoying a new lease of life as banks rediscover their ability to provide profitably banking services to other banks from the safety of their domestic base. Writers will also examine: Cash management services, now enjoying a boom in demand; Treasury management services. A look at the services on offer and their usefulness in making a more efficient use of funds.

● **Corporate Banking:**
For many banks their corporate customers are still the major customers for their services. A look at how banks are servicing their big clients; merchant banking; leasing; merging and acquisitions advice.

● **Technology:**
Rapid changes in banking technology are enabling banks to revolutionise their own internal information systems and many of the services they offer their customers.
Alan Cane will look at the major developments on the technology front, and the way various banks are responding to the major challenge of the most effective use of new technology.

● **Financial Services:**
Financial services are becoming increasingly important weapons in the financial arsenals of the banks and their competitors. The survey will look at developments in international portfolio management; financial futures; export credit and trade financing.

● **North America:**
Banks in both the U.S. and Canada have suffered serious problems over the past 12 months. Articles will examine U.S. banking and deregulation; the new competitors in the U.S. financial services industry; New York's international banking facilities; Canada's banks want to improve their recently tarnished reputation.

● **Middle East:**
This section will highlight developments in Bahrain, United Arab Emirates; Saudi Arabia; Egypt; and Kuwait.

● **Asia and Pacific Basin:**
FT correspondents will report on the banking scene in Japan, Hong Kong, Singapore, Malaysia, Australia, New Zealand, India, Pakistan, China, Korea and the Philippines.

● **Latin America:**
Included in this section will be reports on banking developments in Mexico, Venezuela, Brazil and Argentina.

● **Africa:**
Among the reports from Africa will be special features on Nigeria and South Africa.

Banks stand to gain from the rise in bond prices

Sharp upturn in prospects

Denmark

HILARY BARNES
Copenhagen

THE DANISH financial scene has changed dramatically over the last few months; the prospects for the banks have changed at the same time — and very much for the better.

Last winter, with the budget deficit rising fast and the cost to the Government of financing the deficit, a thumping 22 per cent, the country seemed to be heading into very stormy monetary weather. But within a period of six months effective interest rates in the bond market have tumbled from 22 to just over 13 per cent and the official discount rate has fallen from 11 to 7.5 per cent. The share price index has increased by almost 40 per cent since the end of the year.

The rise in bond prices induced a state of euphoria in the financial community, which has never experienced such a turn-round in its fortunes before. The banks stand to gain considerably from both the rise in bond prices (the change in the value of portfolios from year-end to year-end is entered on the appropriate side of the profit and loss account under Danish accounting rules) and from the decline in bank interest rates.

The change was brought about by the success of the four-party non-Socialist Government's anti-inflation policy and has been reinforced by falling international interest rates and the decline in oil prices.

The first measure to be carried out by the Government when it came into office after eight years of Social Democratic governments was the abolition of the automatic index-linking of wages and salaries. This alone had a significant impact of inflation expectations. It was reinforced by the conclusion of the two-year collective wage agreements in the private and public sectors this spring, which should hold wage increases to about 6 per cent a year—or perhaps even less. The Government is hoping for 4 to 5 per cent.

Consumer prices, which rose by about 10 per cent last year, have risen by only 2.5 per cent since last September and are expected to rise by under 4 per cent between the end of last year and this. In 1984 the increase could be under 3 per cent.

The new-found price stability has in turn strengthened confidence in the exchange rate and removed fears of devaluation. The krone was in fact revalued by 2.5 per cent against the ECU in the recent EMS realignment.

The combination of confidence in the exchange rate and low inflation paved the way for the fall in interest rates.

Budget deficit

An important effect of the fall in interest rates is to ease pressures on the budget deficit. In January the budget deficit this year was expected to rise to over 13 per cent of the Gross Domestic Product. The fall in interest rates since then means that it will only in fact be in the region of 11 per cent. In 1984 for the first time since 1975, it may be possible for the Government to prevent the deficit from rising—in cash terms.

For the banks it was fortunate that the rise in bond prices began in the autumn. Without that, and the consequent improvement in the banks' year-end portfolio values, many banks, including some of the biggest, would have ended the year with a net loss.

The operating profits were under pressure from heavy customer losses arising from bankruptcies in industry, agriculture, building and construction. Total provisions made against bad debts rose from about DKr 4bn in 1982 to DKr 5bn last year.

To take the case of Copenhagen Handelsbank, which rivals Danske Bank as the country's largest commercial bank, provisions against bad debts rose from DKr 403m to DKr 433m, which was the main factor in reducing earnings before depreciation and provisions from DKr 671m to DKr 146m. But there was a gain of DKr 503m on the portfolio value, which enabled the bank to make a record pre-tax profit of DKr 663m. With small variations, this was the pattern for all the banks.

With the prospect that bad debt provisions, after rising sharply for four years, will fall in 1983, while earnings from normal deposit and lending business as well as from investment portfolios will improve, the banks should have one of their best years ever in 1983, which is reflected in the recovery of the share price index for the banks. It has risen since the end of the year by over 50 per cent, considerably more than the overall index.

Lower interest rates and signs of economic recovery could provide some relief

Profitability decline continues

Sweden

KEVIN DONE
Stockholm

WITH ONLY one or two exceptions the profitability of Swedish commercial banks remained under heavy pressure last year and most institutions have suffered a continuing decline in real profitability over the last five years.

Lower interest rates and the first signs of economic recovery could provide some relief during 1983, however, and the Government at least appears increasingly confident that the measures taken since last October, led by the dramatic 16 per cent devaluation of the krona, are already beginning to yield results.

For many banks the most direct result of the devaluation was high currency losses last year, however, which had to be charged against the year's results. The losses resulted out of the balance of gains on net holdings of foreign currency at the time of the devaluation and a loss on long-term loans raised to finance investments in foreign subsidiaries and affiliated banks.

Leading Swedish banks, in particular Skandinaviska Enskilda Banken (S-E Bank Group) and Svenska Handelsbanken, have been pushing ahead with a rapid expansion of international operations during a relatively short time in order to improve the services that can be offered to corporate customers and to counter the competition from foreign banks.

The first signs of recovery could provide some relief for Sweden's banks this year. Above: the modern premises of Stockholm's Sparbank.

SWEDEN'S LEADING BANKS

	Group assets (SKr bn)	Net operating income† (SKr bn)	No. of branches	Staff
S-E Banken Group	139.6	1.42	361	6,323
Svenska Handelsbanken	120.1	1.39	452	5,040
PK Banken	117.2	0.98	130	3,285

† Before extraordinary items, appropriations and taxes.
Source: Annual company reports.

Credit losses

More significant in the banks' performance, however, has been the big rise in credit losses, which have hit all the institutions engaged in lending to the corporate sector in Sweden as well as abroad. Changes in accounting procedures mean that in 1982 these losses had a much more direct impact than before on the banks' profit and loss statements.

Under amendments introduced by Sweden's Bank Inspection Board losses realised on bond sales now appear as an item in the annual income statement, whereas previously the losses were charged directly to reserves.

Such losses — incurred by a bank trying to improve the structure of its bond portfolio with the disposal of low-yielding bonds at prices below par —are now to be reported as a rolling three-year average, helping to make a more correct assessment of the banks' operating performance.

Under other changes in accounting procedures foreign exchange losses are now charged to earnings in their entirety in the year they are incurred. In addition actual net credit losses will be charged to earnings as a rolling three-year average.

Svenska Handelsbanken managed only a modest 8.3 per cent increase in operating income for the parent bank last year, for instance, to SKr 1.186bn, with the result hit by a sharp increase in credit losses. Total losses relating to loans, foreign exchange and bonds charged to earnings amounted to SKr 290m compared with SKr 118m in 1981. The profits performance of the parent bank of the S-E Bank Group was even less impressive, with a rise of just 3.3 per cent in operating profit—after currency losses and provisions for foreign credit risks — to SKr 1.105bn.

A study by the Swedish Bankers Association shows that the average earnings of the commercial banks were at their lowest level for more than five years in 1982 measured in terms of operating income as a percentage of total assets. The ratio of profitability fell to 1.19 per cent compared with 1.31 per cent in 1981 and a high point of 1.64 per cent in 1978.

One of the biggest problems facing the banks is the leading role they are called on to play in financing the national debt, which has grown explosively in the last ten years. For a number of years government policy has meant that Swedish banks have had to carry a considerable part of state debt in their own portfolios. The Riksbank, the Swedish central bank, imposes a so-called "liquidity ratio" on each bank which means that certain liabilities should at any time be covered by certain "liquid" assets. The decisive factor among such assets is the banks' holdings of Government and housing bonds. The result is that banks' assets have been unduly swollen by the forced increases in their bond portfolios.

According to S-E Banken "The Government's financial needs have made it more and more difficult for the banks to perform their natural duties, that is primarily to finance trade and industry."

Caught by rising interest rates and a swollen, low-yielding bond portfolio S-E Banken suffered bond losses in both 1980 and 1981, with a negative margin between the average yield on its bond holdings and the cost of funding. Faced by the task of having to restructure its bond portfolio S-E Banken has succeeded in reducing the average maturity, however, by about three and a half years and there is now a positive yield of 0.32 per cent last year.

Such restructuring cost the bank SKr 442m in capital losses in the last few years. It has been helped too by Government efforts to shorten maturities for newly issued bonds and to introduce interest rate adjustment clauses.

Profitability generally has been hampered by the Riksbank's interest rate controls exercised through special legislation. For a Swedish bank the average of lending rates is not allowed to exceed a maximum level set by the Central Bank. Funding costs fluctuate, however, following various factors including conditions in the money market and the current foreign currency position. The Swedish krona interest margin moves substantially during the year. "That margin has at times been too narrow to allow for an adequate profit level," says S-E Banken.

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The Portuguese banking system is waiting for a new stimulus to bring more competition into its dusty atmosphere. Above: part of the main commercial and banking areas of Lisbon.

Government drags feet on private sector plans

Portugal

DIANA SMITH
Lisbon

IN AUGUST 1982 the last institutionalised vestige of the 1975 revolution that swept more than half the Portuguese economy into the public sector was erased with the constitutional review and abolition of the Military Council of the Revolution.

That council had repeatedly vetoed the return of private capital to Portuguese banking on the grounds that it countervened the precepts of the 1976 constitution which pointed Portugal in the direction of Socialism. It seemed logical to assume that, with the disappearance of the council, a Centre-Right administration whose loudest battle cry had been abolition of this obstructive body, whould hasten to untie the bureaucratic knots and let capitalism back into the system.

There was no threat to denationalise the eight commercial banks hauled into the public sector in 1975 by order of the Communist Party, then Portugal's most powerful force bent on maximum centralised control of the economy. It is useful to remember that Portuguese banks were strong family concerns which acted as holding companies for multi-faceted activities ranging from commerce through industry to tourism and the media—making them a useful catch for a Moscow-orientated Communist Party eager to create a puppet state in south-west Europe.

The idea of the ruling coalition of Social Democrats, Christian Democrats and Monarchists grouped into the Democratic Alliance (AD) was to permit new Portuguese or foreign banks to operate. The latter tended to be more interested in the wholesale than retail side extensively serviced by the Portuguese institutions, albeit with time-wasting overmanning and cascades of paperwork.

For some time representative offices of major international banks had been opening, having duly received permission from the Portuguese authorities. Most of the 21 offices that had blossomed like exotic new species in the somewhat rigid Portuguese financial habitat by 1982 were *of a mind to graduate* to full branches, legislation and time permitting.

They came from the U.S., the UK, *Japan*, France and Brazil above all, attracted by reiterated promises of economic reforms and Portugal's future status as a member of the European Economic Community. The Treaty of Rome bars discrimination against foreign capital—meaning that sooner or later foreign banks must be given full access to the Portuguese market. It seemed wise to make a presence sooner helping to marry foreign credits. If nothing else, it allowed representatives to form on-the-spot rather than remote views of Portugal's small and beleaguered economy.

Watchdog

That "watchdog" presence became paramount as the Government weakened throughout 1982 and omens of serious dependence on the foreign financial market were spotted by observers in a yawning balance of payments gap. They included an onerous debt-servicing schedule and short-term debt ratio that was, at nearly 30 per cent of total foreign debt, too heavy for a small country with scant domestic resources.

Portugal patently needed help. Just as patently, it could not expect special favours, as a nation whose Prime Minister threw in the towel even though local election results gave him a qualified mandate to go on with promised reforms—raising serious questions of confidence—or to one which raced around markets in search of funds breathlessly insisting things were not that bad.

There were sticky moments when anxious officials, in their rush to secure optimum terms for sorely needed loans, ignored local representatives of major banks in Lisbon and flew over their heads, doing themselves no favour. Hard lessons were learned about the real workings of the international banking system as opposed to the workings imagined by a novice country bred on red tape, paternalism and statements in *between lines*.

Observing, loan-broking, and in a few cases, participation in new ventures like leasing companies or, more rarely, investment companies may be the only activities afforded to foreign banks for some time yet. The resounding promise made by Premier Francisco Balsemao in June 1982 that "there will be private banks in *Portugal* by the end of the year" fell flat when it transpired that his Government was dragging its feet on the reform *Bill that would permit such an* event.

An insecure administration shrank from a measure bound *to attract Left-wing controversy* for a while but needed to goad the Portuguese economy into more dynamic European patterns. As a result foreign bankers and investors who once believed in promises of liberalisation and progress are developing sceptical armour that does not help the country's efforts to be taken seriously as a future partner of a powerful competitive European market.

The Portuguese banking system is waiting for a new stimulus that will bring a healthy tang of competition into its dusty atmosphere. The beginnings of mechanisation are laudable, and have accelerated some transactions, but in most aspects the system is *still* the ideal home for the bureaucrat who shuns risk and leaves decisions to his higher-ups—who in turn leave *decisions* to the Government.

Bankers say their house is in order but there are problems ahead

Still in for a testing time

Spain

DAVID WHITE
Madrid

WITH a sizable dose of optimism Spain's top bankers now reckon that after a long series of bank crises and after the spectacular Rumasa affair their house is henceforth in order.

The continuing fragility of many industrial sectors means that the banking system is still in for a testing time.

The reigning sensitivity about any further suggestion of major upsets was illustrated by the insistence — perhaps counter-productive insistence — with which recent rumours about Banco de Santander, the last big family-controlled bank, were denied.

The last five years in Spain have seen almost 30 banks collapse, one of the most illustrious names in Spanish international finance — Banco Urquijo — having to be rescued and a whole chain of banks controlled by the controversial Rumasa holding group fall victim to a state expropriation decree.

The three biggest of this long list of accidents landed on the desk of the incoming Socialist Government elected last October. In the case of Urquijo, absorbed by its sister bank Banco Hispano-Americano with help from the authorities, and the very different case of Rumasa, which the Government claims was headed for inevitable disaster, new solutions have had to be found to save the whole banking system from irreparable damage.

Components

The virtual bankruptcy of Banca Catalana, a group set up with the political mission of providing Catalonia with its own big bank, had already given the authorities a major headache. The largest group to go into the care of the Deposit Guarantee Fund—the semi-private, semi-Bank of Spain safety-net body—it has been the subject of piecemeal negotiations to guarantee the future of its commercial and industrial banking components, whether in private or state hands.

Catalana alone brought seven banks into the Fund, including its subsidiary Banco de Alicante, hived off at an early stage to the state-controlled Banco Exterior.

A recent estimate by the Spanish Private Banking Association put the combined assets of banks in a declared state of crisis—29 of them—at $12bn or 8 per cent of the private banking system. This includes the Rumasa banks, of which 18 were named in the expropriation order in February last and two more, discovered to have been taken over secretly in 1981 and 1982, have been under Bank of Spain supervision. Rumasa alone is reckoned to account for 4.5 per cent of the system.

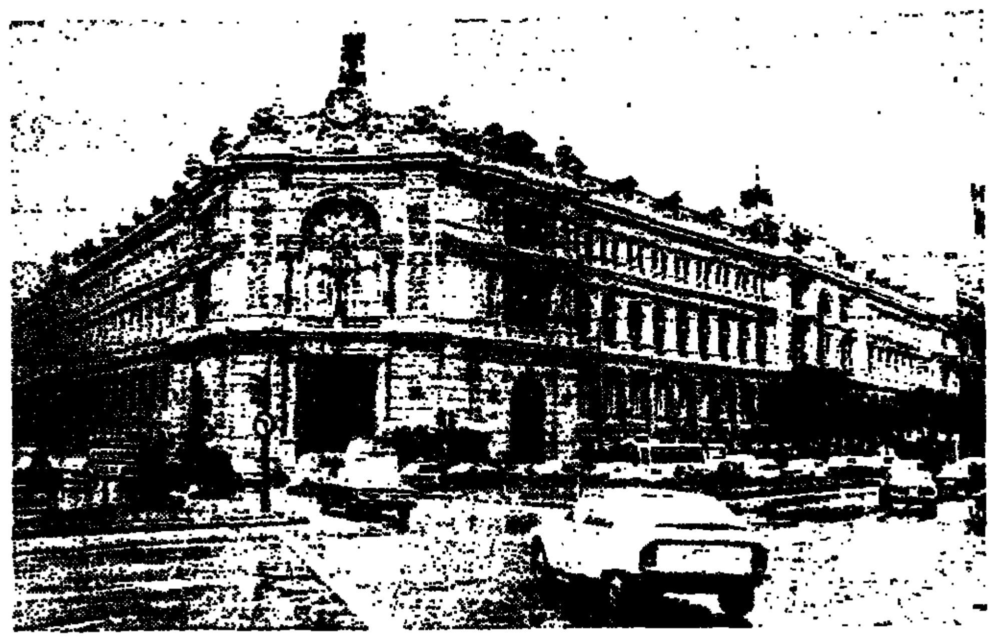
Relief

Although the banking community is pressing for the rapid return of Rumasa interests to the private sector, the Government's action was greeted with ill-disguised signs of relief.

Rumasa was the black sheep of the bank sector. Not only did rumours of its financial precariousness create serious concern; its banks also provided tough competition in the above-the-odds terms they offered for deposits. The campaign for reprivatisation now principally affects the largest of the banks it controlled, Banco Atlantica, which was also the one which most sucessfully resisted being brought into the "Rumasa system," with risks concentrated in companies of the Rumasa group.

Of the remaining banks few if any are likely to be taken over on the government's terms—which are that it recovers the money it puts in. No re-sale is foreseeable in any case before the authorities complete their investigations into the group and their legal proceedings over funds which Rumasa channelled during the last two years into undisclosed interests outside Spain.

The affair has had at least one positive effect in completing a clearing-out of the bank system, leaving a somewhat tidier structure. This is made up, as far as the Spanish banks other than savings banks are concerned, of four parts. The expanded state share, apart from the official credit institutions, embraces Banco Exterior and the rump of Rumasa, which together would make Spain's biggest bank.



The last five years has been a period of severe problems for Spanish banks, but there is now more optimism among the nation's top bankers. Above: the Bank of Spain in Madrid.

Then come the traditional Big Seven private bands headed by Banesto, Central and Hispano-Americano, the latter newly returned to the very top league through its takeover of the industrial banks Bankunion and Urquijo. These account for four out of every five pesetas deposited in banks in Spain.

Behind them, accounting for less than 5 per cent of total bank assets, come the so-called group of five medium banks. Behind them again is an assortment of surviving small local banks. All of these groups are subject to possible reduction through takeovers, in what may be regarded as an inevitable process of concentration.

The speed with which these regroupings take place will be largely dictated by the degree to which profits, already cut down in real terms last year, continue to be squeezed. Affecting profits are the need for increased provisions to cover bad debts, slack credit demand, higher costs of liabilities and a stepping up of official compulsory deposit requirements.

The proportion of total deposits which banks have to *place interest-free with the* Bank of Spain was raised last December by a full point to 6.75 per cent. The proportion placed at the Bank of Spain's eight per cent base rate was lifted on April 14 last by the same margin to four per cent, in a bid to keep money supply in line with the targeted 13 per cent rise this year.

Severe

The severity of the banks' situation has been reflected in hard-fought wage negotiations and in the Government's move effectively to discourage more competition from foreign banks.

It did this by increasing the *minimum capital* requirement for foreign banks setting up branches in Spain from Ptas 750m to Ptas 2bn ($15m). The *authorities* argue that *this* reflects straightforward monetary correction to compensate for inflation and the fall of the peseta since the doors to foreign banks were reopened in 1979. But the foreign exchange risk entailed is much less tempting to take now than it was at that time and for two reasons: international banks' own treasury position and the altered profit *outlook in Spain*.

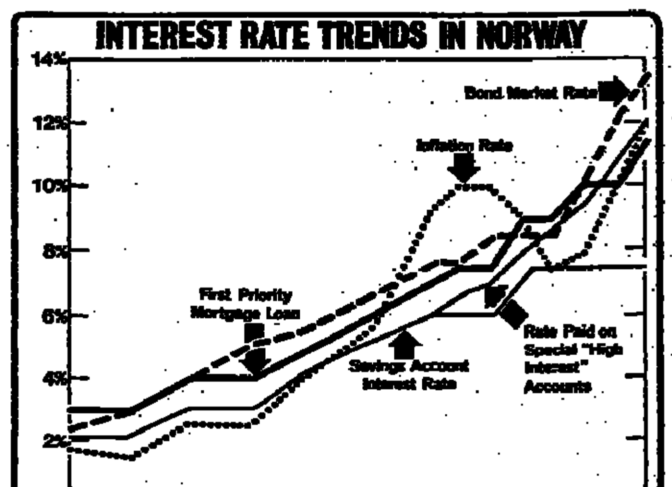
Including four banks which were already on the waiting lists and which have been *approved by the Socialist* Government (France's CCF, First Interstate of California, Banca Commerziale Italiana and Sumitomo) and *the four* that were already in Spain, the community of foreign banks now numbers 36.

Although *only a handful*—including two post-1979 arrivals which bought Spanish banks, Barclays and BNP—have extensive branch operations under the restrictive rules, Spanish banks were pressing to prevent extra competition.

However, almost all the major European and U.S. banks are now established in Spain. This has not only helped in developing the *range of banking* activity. It has also an important spin-off in so far as these banks' local presence influences their stance as Spain, with its foreign debt of over $28bn, continues to look for new funds and as key industrial groups such as Explosivos Rio Tinto are forced to renegotiate their debts.

Bankers fear lower rate ceiling could hit already weak profitability

Dispute over level of interest rates



Norway

FAY GJESTER
Oslo

THE LEVEL of bank interest rates has become a very live political issue in Norway. Pressure is growing on the minority Conservative Government to lower the ceiling on the rates banks may charge customers — a development which bankers fear could hit their already weak profitability. As it is, bank profits are inadequate to keep equity growth abreast of inflation, so that the banks are constantly having to float new share issues on the relatively small Norwegian market.

Unemployment

The opposition parties — including two which normally support the Government—want lower interest rates as a means of stimulating investment and economic activity generally. Although unemployment in Norway—at around 4 per cent —is still well below the levels prevailing in most Western industrial countries, it is exceptionally high by Norwegian standards.

A Storting (Parliament) debate on counter-recession measures, late in March, revealed that a majority of MPs favour cutting interest rates. On that occasion the Government's two political allies—the Christian Democrats and the Centre (agrarian) Party — did not actually vote for opposition motions urging a cut in rates charged by the state banks and "guidance" from the Finance Minister obliging the private banks to cut their interest rates as well.

The parliamentary leader of the Centre Party said, however, that he assumed the Government would now take some action in that direction, since "it cannot, in the long run, ignore the fact that there is a parliamentary majority which supports this." The same line was taken by prominent Christian Democrat MPs.

Present Government rules—unchanged since January 1982 —limit interest charges by banks to an average of 14.2 per cent per annum on short-term loans (less than a year) and 12 per cent on longer term loans. In May last year the Bank of Norway sent a circular to banks warning them that they must observe these guidelines.

There is a strong theoretical case against Government intervention to force interest rates still lower, given the present state of the market. Even at current rates demand for credit exceeds supply and the banks are finding it difficult to stay within official lending limits. If borrowing becomes even cheaper, the queue of customers seeking loans will grow longer and an extension of lending limits will become unavoidable. This in turn will increase inflationary pressures in the economy—already strong as a result of expansionist fiscal policies.

These are the bankers' arguments. To date the Government has heeded them—but a change may be on the way.

In the March debate Finance Minister Rolf Presthus said he had no intention of doing anything about interest rates before publication of the revised national budget for 1983, due in May. He indicated, however, that he might do something then. A "moderate" settlement of the spring wage talks between the employers and unions could, he hinted, open the way for this. Such a settlement would reduce inflationary pressures in the economy and make it less risky to lower interest rates.

Developments

In fact a moderate settlement was achieved—providing for a general pay rise of only NKr 0.40 (about 3p) an hour for most workers (increases negotiated later, at plant level, will come on top of this). Moreover, the latest cost of living figures showed a year-on-year rise, at mid-March, of only 9.2 per cent—a great improvement on the 11 per cent-plus inflation experienced in 1982.

These developments—and continuing strong lobbying by the Government's parliamentary allies—make it likely that the revised national budget will include some measures to lower the cost of credit. These could include steps to increase the credit supply, such as a reduction of primary reserve requirements, and raising of lending ceilings.

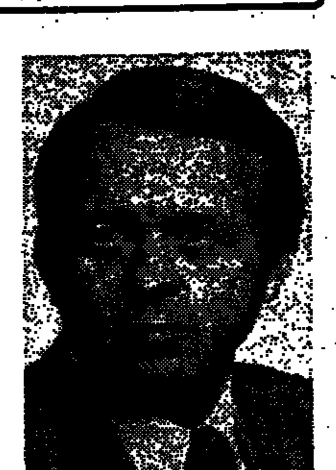
The market certainly appears to be expecting a downturn in interest rates. There has been keen demand for bond issues and Government loan stock at the rates now ruling; a recent 13 per cent, 22-year issue attracted subscriptions totalling a record NKr 6bn. Some companies and institutions planning new bond issues are delaying these in the expectation that rates will drop.

One leading credit institution, Den Norske Hypotekforening (DNH), announced in mid-April that it was raising the price of its 14.5 per cent bonds so that their effective yield would be only 13.75 per cent. "Somebody has to be first," it proclaimed, in full page Press advertisements. Other credit institutions should follow its lead, said DNH. "If we are right in believing that inflation is on its way down and Norway is on its way up."

Several important changes in credit regulations affecting commercial and savings banks were made late last year. Direct regulation of lending by savings banks, introduced in June 1982, under section 8 of the Monetary and Credit Policy Act, was lifted, on the grounds that prolonged use of this measure could lead to inter-bank lending becoming fixed in one particular pattern—a development the authorities regarded as undesirable.

Primary reserve requirements for both savings and commercial banks were set at seven per cent — representing a rise of one per cent for the former and a cut of one per cent for the latter. At the same time the Government introduced a new regulation aimed at curbing the volume of guarantees which banks and insurance companies could provide for loans from private sources — the so-called "grey" market.

To inhibit expansion of this market — particularly marked during 1982 — the authorities ordered that the total volume of guarantees provided by the private credit institutions for grey market loans should not be higher at the end of third quarter 1983 than they had been a year earlier. Banks or insurance companies which in 1982 had heeded the Finance Ministry's appeals to curb the number of such guarantees they granted would be less rigorously restricted than those who had not.



Mr Lief Loddesol, chairman of the Norwegian Bankers' Association: lively debate on interest rates

Meanwhile, the future structure of Norway's banking sector has recently been under study — first by a Royal Commission which reported last December and now by the Finance Ministry, which is mulling the commission's conclusions. These included a warning against allowing any of the country's three largest commercial banks to participate in future mergers — either with one another or with other banks — and a recommendation that foreign banks should be allowed to establish subsidiaries in Norway, provided that these are set up as Norwegian limited companies and not simply as branches of the foreign banks. A Ministry White Paper on the subject is likely later this year.

Commercial banks lifted net profits by nearly 21 per cent last year

Good year for earnings

Finland

LANCE KEYWORTH
Helsinki

FISCAL 1982 was a good year for Finland's banking sector, although it was the second successive year of stagnation for industry. The money market was easy for most of the year, slack investment activity weakened demand for new credits, foreign business expanded and the commercial banks raised their net earnings by an average of nearly 21 per cent compared with 1981.

The situation following the 10.3 per cent devaluation of the Finnmark in October 1982 seems to be fairly well under control. The net long-term foreign debt is large and growing but manageable. Inflation could be a problem, especially as the incomes settlement in April was not the moderate one the Government had pleaded for. Economic activity is expected to revive in the latter half of the year and the growth rate estimated for 1983 is 1.5 per cent.

In the banking field specifically, the Bank of Finland's recent announcement of changes in monetary policy point to new developments ahead. The changes are small and cautious but innovatory for Finnish conditions. In effect the Bank of Finland has given its blessing to the short-term money market which has assumed considerable proportions in the past two or three years but simultaneously plans to initiate some form of regulation of the market.

Cartel system

Bank lending rates in Finland are fixed by the Bank of Finland in accordance with its base lending rate (currently 8.5 per cent). The deposit-taking banks then fix among themselves the interest rates to be paid on deposits from the public. This cartel system, which might be called the regulated money market, worked fairly well until recently, when parallel with it there grew up an unregulated market in which the borrowing and lending rates were freely formed.

These short-term funds derive from companies looking for a better return on their temporary surplus liquidity than the banks can offer. The funds are placed with other companies directly or through the finance companies of the banks. They are estimated to amount to about FM 13-14bn (£1.6-1.7bn). They are relatively expensive, with rates 13-14 per cent, and if accepted directly by the banks can only be lent out at the controlled rates. The highest lending rate allowed by the Bank of Finland is 12.5 per cent.

From May 1 1983, however, the maximum lending rate will be raised to 13 per cent and the banks will be permitted to pass on to their credit clients up to 40 per cent of the extra interest costs incurred in using short-term funds. It is estimated that this will push up the banks' average lending rate (at present about 9 per cent) by 0.1 to 0.2 per cent units. In addition, the banks will be free to decide their own differentials between individual categories of credit granted. Primary housing loans are one exception but consumer credit clients, buyers of country cottages and cars, etc, will now find credit more expensive.

Quota

The third important change is in the Bank of Finland's call money market conditions. The quota for commercial bank's call money drawings is FM 400m. The interest on drawings within this quota is 8.5 per cent. Drawings exceeding the quota are charged 13 per cent and after a certain level an additional 2 per cent. In future there will be a flat rate for the above-quota drawings, though this has yet to be fixed. Simultaneously, call money market placements and borrowings will carry the same rate on interest, which might encourage banks to use the call money market as a home for some of their short-term surplus liquidity.

In any event, as more of the short-term funds flow through normal banking channels, the Bank of Finland will be better able to assess the overall money supply. As said, this is a tiptoe approach to the problem but the principle has been welcomed by the banks. For the moment it applies only to commercial banks proper and to Postipankki. The system will be applied to the co-operative and savings banks later. It is not designed to ease the money market. Indeed, the bank's cash reserve deposit obligation was raised by 0.4 per cent units to 4.1 per cent at the end of March.

Foreign banks

The three foreign banks in Finland also welcome the changes. Citibank's report for the first full year of trading shows a loss of FM 1.8m and a balance sheet total of FM 709m. "We have reached cruising height and expect to show a profit next year," says Mr Kari Mannola, the managing director. Chase Manhattan's report will also show a loss in 1982 as expected but managing director Roscoe Tanner says "We are extremely satisfied." Indosuez had only been trading for 2½ months last year and is not publishing an interim report.

FINLAND'S TOP SIX BANKS
FM bn—December 31, 1982

	Total assets	Deposits	Own funds
Union Bank of Finland	34.71	15.76	1.47
Kansallis-Osake-Pankki	34.53	16.51	1.69
Postipankki	21.81	11.59	.29
Skopbank	9.15	.84	.49
OKOBANK	9.05	.69	.27
Bank of Helsinki	6.24	3.15	.37

Foreign banks are confronted by acute new difficulties in their labour relations

Monetary and pay policies hit profits

Greece

VICTOR WALKER
Athens

A YEAR ago bankers in Greece were uneasy; today they are depressed, especially if they are officers of the foreign banks operating in the country either through full branches or representative offices.

All commercial banks face a problem of declining profitability—when the 1982 results are available they are likely to make "sad reading" in the words of one banker. Foreign banks additionally are confronted by acute new difficulties in their labour relations.

Greek bankers tend to discount the credibility, though not necessarily the feasibility, of private talk among the foreign sector of closing down their operations or downgrading them to representative offices, as a reaction of last resort against the Greek Federation of Bank Employee Unions (OTOE), co-ordinating body of the union movement in the banking sector.

They do not expect the present disputes to come to that point, though they admit this could happen at least on a limited scale.

The problems common to all commercial banks in Greece arise from a tighter monetary policy coupled with increases in wage and other costs.

As a result of Government policy restricting liquidity, mainly through mandatory placement of funds in Treasury Bills and other reserves, close to 70 per cent of bank deposits are tied down in reserves. While the reserve requirements have not been increased since August 1981, the adjustments made at that time affected profitability only from last year. In addition, last year's collective labour agreement raised bank wage costs by an average of 40 per cent. Despite the partial freeze on wages now in force, banks are anticipating another 20 per cent jump in wage costs this year, because of limited indexation payments to be made in three instalments and the normal increases to cover long service and promotions.

Bankers note at the same time that the inter-bank money market has been affected by instructions given to banks and other organisations to reduce the rate of inflow.

The upshot of this, bankers say, is that commercial banks this year are living from the utilisation of 30 per cent of their deposits and fees from imports and exports.

No reductions

A year ago bankers were anticipating there would be some reductions in deposit rates but these have not occurred, presumably because of Greece's continuing inflation rate of above 20 per cent and the need not to discourage private saving. Thus one-year deposits of more than 3m drachmas still earn a top rate of 20 per cent, falling to between 16.5 and 19 per cent for deposits between 1m and 3m drachmas, while Treasury bills yield 13.5 per cent and bankers calculate an average 12.5 per cent for the entire 70 per cent of deposits tied up in one way or another with the central bank.

In recent years there used to be constant talk of liberalising Greece's complex structure of Government-mandated interest rates but bankers say that is now not even under discussion.

They note that while in 1982 the rate of increase of private savings at 30 per cent was faster than inflation, at a time of falling private consumption, the rate this year is already considerably down. The Government has calculated its credit policy for 1983 on the basis of an increase in private deposits by about 26 per cent.

An improvement in bank profitability is regarded as dependent on either a decrease in interest rates or the release of a larger percentage of deposits held by the central bank. One banker says "we are very concerned about the squeeze on liquidity and its considerable adverse impact on profitability."

Besides these difficulties foreign banks are operating in what some of their officers feel is an increasingly hostile environment, represented by union encroachment on areas that outside Greece are still regarded as management preserves and a campaign against foreign presence on political grounds mounted both by OTOE and Left-wing parties.

There are 22 foreign banks with full branches and 10 with representative offices, together employing between 2,500 and 3,000 Greek staff out of a total banking sector employment put by OTOE at close on 40,000.

The banks came to Greece in two waves, the first at the time of the seven-year dictatorship when an effort was made to encourage offshore business and the second when it became clear that Greece would join the EEC. Together they account for about 15 per cent of total banking business. The National Bank of Greece and the Commercial Bank Group, both state-controlled, hold about 75 per cent of the market and the balance is shared among small private sector Greek banks.

The 12 foreign bank branches that are unionised are for the most part among those which came to Greece in the first wave.

Foreign banks are concerned over what they see as a developing OTOE attempt first to unionise the remaining banks that have branches, and possibly some of the representative offices, and secondly to enforce a closed shop in all foreign banks.

A collective agreement signed last year required formation of a union in any bank still without one, while a complex dispute over two pensions funds is seen as an attempt by OTOE to bring all Greek employees of foreign banks under its influence by linking membership of the fund offering higher benefits to membership of a bank union.

Auxiliary fund

Foreign bank managements are insisting on putting their staffs into a state-run auxiliary fund which is completely independent of the trade union movement.

Meanwhile, in a manifesto published early this year OTOE called for changes in corporate structures seen as amounting to a "Helenization" of the foreign banks. This is envisaged as a phased programme that will include abolition of swaps as a means to financing foreign banks, the full assimilation of all foreign bank employees within a non-merit seniority system and total unionisation of foreign banks.

More specifically, under the OTOE blueprint, there will have to be union concurrence on all issues relating to automation and technological advances and a union say in financing policies. Some foreign banks are already facing union demands that include control of staff review boards and the right of "direct influence" over credit policy and lending decisions.

A Greek banker agreed that "if things get to the stage of unions taking part in lending policies we shall be in deep trouble."

WORLD BANKING XIX

Centrally-planned economies have shown their ability to alter course rapidly

Sharp turnaround in external debt

Eastern Europe

DAVID BUCHAN

AS A region, Eastern Europe probably deserves slightly better treatment in 1983 than it received from Western bankers in the two preceding years.

It was here that the current international debt crisis first broke, in Poland in 1981; but it is also here that the first concerted adjustment — a squeeze on investment and domestic consumption, cutbacks in imports and an export drive to win hard currency—have taken place.

The issue, in fact, is whether Western banks by not only refusing to extend net new credit, an understandable reluctance, but also by sometimes declining to roll over existing loans to Eastern Europe may not be hurting their own best interests.

The centrally planned economies have shown in the past two years their ability to change course speedily. But if they are forced to repay at too rapid a pace, their levels of hard currency imports will have to decline further, hitting not only the sales of western companies, but also indirectly exports on which debt repayments to the Western banks depend.

The turnaround in Eastern Europe's external financial position has been dramatic. Wharton Econometrics calculates that last year the aggregate hard currency trade balance of the six East European members of Comecon, Bulgaria, Czechoslovakia, East Germany, —Hungary, Romania, and Poland —rose to \$5.1bn from \$400m in 1981.

With the Soviet Union included, the increase was from around \$500m to \$9.6bn.

On a net basis, Wharton calculates that Soviet bloc debt was \$61.3bn at the end of last year. Only \$8bn of this is owed by the Soviet Union, the rest by its East European allies.

But even there, as Dr Jan Vanous of Wharton points out, the \$53bn owed by Eastern Europe (nearly half that by Poland alone) represents 8 per cent of Eastern Europe gross national product, and \$480 on a per capita basis.

This compares with Brazil's \$84bn debt exceeding 30 per cent of its GNP and Mexico's \$80bn debt amounting to 35 per cent of its GNP. And, Dr Vanous notes, Mexico and Brazil have only just begun to bite the bullet of adjustment which Eastern Europe has already gnawed hard on.

The squeeze on Western credit has only been one problem for East European members of Comecon. The other problem as their deteriorating terms of trade with the Soviet Union, largely because of the rising price of Soviet oil—21-27 per cent higher in 1982, reflecting with a time lag the sharp Opec increases of a couple of years earlier.

Since there was no corresponding increase in prices of East European exports to the Soviet Union, East Europe's terms of trade continued to deteriorate by 7 per cent last year.

The cumulative effect of this has been that growth in Eastern Europe continued to decline last year, with negligible increases in Romania and Czechoslovakia, and the earlier attempt to protect consumers from the impact of this was abandoned.

Rising share

The share of "national income produced," as it is termed in Comecon, devoted to reducing external indebtedness and offsetting deteriorating terms of trade, has steadily risen.

The Soviet bloc's seven members have differing degrees of control over the future level of their indebtedness to the West. The strongest economies or those with the lowest debt exposure, the Soviet Union and to a lesser extent Bulgaria and Czechoslovakia, are more in a position to determine their own borrowing. Those three countries have also shown themselves politically cautious about being in hock to the West. The other four are more constrained in that they must take what western credit is offered them, in order to service existing debt.

On the plus side, this should stimulate recovery in Western industrialised countries and thus demand for Comecon imports, as well as depressing interest rates and thus easing Comecon's debt servicing burden.

Heavily on the minus side is the fact that between one quarter and two thirds of total exports of individual Comecon countries to the Third World go to just three oil producing countries, Iran, Iraq and Libya, which are having to prune imports.

These three markets account for 39 per cent of total export earnings outside Comecon in the case of Bulgaria, 23 per cent for Romania, and more than 10 per cent in the case of the other Comecon countries, except East Germany.

With these factors in mind, Wharton is predicting a decline in Soviet and East European exports to developing countries in 1983 and mixed prospects for sales to the industrialised West, with a 3 per cent increase in Soviet exports and a decline in East European exports, though much of this may be the phasing out of unprofitable Romanian petrochemical exports.

As for imports from the West, Wharton believes 1983 may see a "sharp increase" in Soviet purchases, spurred by Mr Andropov's economic development ambitions, and a modest rise in East European purchases.

Western governments are making further attempts to co-ordinate a common credit policy towards the East this year but this mainly affects export credit which they underwrite. The chief task is to ensure the proper working of the May 1982 agreement, which stiffened the terms for the Soviet Union, Czechoslovakia and East Germany.

Net Hard Currency Debt

Figures in \$bn at end of 1982*

Soviet Union	8.0
Bulgaria	1.8
Czechoslavakia	3.2
East Germany	9.2
Hungary	6.2
Poland	24.1
Romania	8.8

*Gross debt to the West, minus deposits in Western banks.
Source: Wharton Econometrics

Naturally there is some differentation by bankers between individual Comecon countries. On one side of the scale is the Soviet Union, with its low net debt and debt service ratio, gas and gold reserves to offset lower oil revenue; on the other is bankrupt Poland, which even on the most optimistic assumptions will not be able to pay the interest on its debt until 1984-1985 and is now seeking a three-year rescheduling of its 1983-85 debts to Western banks.

Romania hopes to avoid rescheduling its 1984 debts but is negotiating delayed repayments with Western bankers on debts due this year. In the middle of the scale are Bulgaria, Czechoslovakia, East Germany and Hungary, all of which have been able to keep servicing debt without significant arrears.

These countries, with, of course, the Soviet Union, are reasonable credit risks in all probability. Whether they are for certain depends very much on how much economic and financial information they are willing to divulge to Western bankers.

Banking is practically confined to the savings bank network

Steady build up of savings deposits

Soviet Union

ANTHONY ROBINSON

THE SOVIET UNION has always been extremely conservative in its borrowing from the West and the debt problems of Eastern Europe in recent years have reinforced its reluctance to increase its exposure beyond fairly tight limits.

Western estimates of total net Soviet debt to the West range between \$8bn and \$10bn; the latest Soviet foreign trade statistics indicate that elimination of the country's former hard currency trade deficit remains a priority of Soviet planners.

Last year the Soviet deficit on trade with the industrialised West fell to a mere \$100m from a high of \$3.6bn in 1976. Higher arms sales and lower imports from the developing countries ensured an overall trade surplus of over 5bn roubles.

What was remarkable about this performance was the fact that it occurred against the background of falling prices for its major hard currency exports—oil and gas. The Soviet Union is not a member of Opec but was quick to raise prices in line with Opec while the going was good. When prices started to fall, however, the Soviet Union became a factor in spurring the decline by cutting its own prices ahead of the market in order not only to maintain volume but actually to increase sales. According to a recent report on the Soviet economy published by West Germany's Deutsche Bank the Soviet Union sold 53m tonnes of crude oil to the West worth \$14bn last year plus 75m tonnes to Eastern Europe and 20m tonnes to other Communist countries and the Third World.

Its ability to raise volume sales to the West by nearly 40 per cent last year despite a mere 1 per cent rise in production, to 613m tonnes was partly the result of supply cutbacks to Eastern Europe and the domestic Soviet market but mainly the result of stepped up oil imports from Libya, Iran and Iraq. Oil was taken in payment for arms and was subsequently re-sold in the West for hard currency.

Resentment

Soviet tactics have incurred growing resentment from several Opec members however and attempts are now being made to persuade the Soviet Union to co-operate in trying to make the agreed Opec minimum price structure stick. A 50 per cent rise in Soviet oil prices in late April may have been partly timed to head off Opec criticism but also reflected the Soviet Union's awareness of the sacrifices it has had to make in order to maintain hard currency earnings at a time of falling energy prices.

In the medium term the Soviet Union, as a major energy and raw material producing country, stands to be a major beneficiary from any sustained upturn in Western economies, especially when this starts to be reflected in higher commodity prices. But this year is expected to be rather tight from the hard currency point of view, with continuing heavy grain imports and a continuing need not only for Western technology imports but also semi-manufactures, components, chemicals, steel and non-ferrous products required to fill the gaps left by planning oversights or below-plan production in many key sectors despite an apparent rise in growth and productivity since Mr Andropov took over.

Hitherto one of the main restraints on Soviet imports of Western technology and plant has been the artificial tightness of the domestic economy and the slowness with which major construction projects incorporating Western plant and equipment have been completed. The exception here is the top priority Siberia-West Europe pipeline, whose completion is seen as a matter of national and party prestige. But the Soviet appetite for Western technology and the capital to finance its import appears likely to grow as the decade progresses, partly because of the scale, cost and technological complexity of exploiting new resources and partly because of the need to bridge what is now perceived as a growing technological gap.

One example of the kind of project now being considered is that of coal gasification in Siberia. A group of West German banks recently visited Moscow for talks on future financing which included preliminary discussion of the financing requirements linked to contracts for Western companies and repayment in synthetic oil.

While the external banking outlook appears fairly straightforward, the domestic picture is one of a steady build-up in savings deposits as higher money incomes find no corresponding increase in goods and services to absorb them. The domestic banking system is practically confined to the savings bank network. Apart from those members of the Soviet elite with special accounts at Gosbank, the average Soviet citizen has never seen and probably cannot even image cheque accounts, credit cards and all the other basic services supplied by Western commercial banks.

Savings accounts

Most Soviet citizens have simple savings accounts with the state savings bank. Total savings in such accounts rose from 91bn roubles in 1975 to 156.6bn roubles in 1980 and have continued rising faster than either incomes or retail trade volume. There is no clearer proof of the degree of pent-up purchasing power and suppressed inflation in the Soviet Union than the figures which show that the total volume of savings now represents nearly 60 per cent of total annual retail volume which in 1980 reached 278bn roubles.

The existence of this big pool of potential spending is one reason why black-market prices for scarce, especially Western, consumer products is so high and why the Soviet Union has taken to importing cheap consumer goods from Third World countries and selling them at very high prices on the domestic market to try to soak up these excess funds.

Why the IMF decided to lean on commercial banks to provide new money

Complex international rescue package

Yugoslavia

DAVID BUCHAN

THE INTERNATIONAL rescue package arranged for Yugoslavia this spring may not be the biggest this year, but it is certainly the most complex. It totals nearly \$7bn in new and rescheduled financial loans, and it involves all the major international institutions and many of the governments in the West, not forgetting a little help from Moscow too. By common consent, if it cannot get Yugoslavia over the hump this year of shouldering its \$18bn debt burden, then nothing can. There is very little chance of such an international effort ever being repeated.

The major elements of the package are:

- Refinancing by commercial banks, which involves rescheduling \$1.4bn in loans maturing this year, rolling over \$1.8-\$2bn in short-term credit for two years, and provision of \$600m in new money before June 30.
- A final \$600m tranche from an existing International Monetary Fund standby credit, a \$350m structural adjustment loan from the World Bank and a short-term bridging loan from the Bank for International Settlements.
- A most unusual contribution from 15 Western governments in the form of cash and extended trade credits, worth \$1.3bn.

Why so much support? There were two prime movers behind the rescue package. One was the IMF which realised that its credibility was very much at stake in Yugoslavia, the only major country to hit a debt crisis in spite of being two years into an IMF adjustment programme. Even though it met IMF targets to improve its current account in 1981-2, Yugoslavia continued stubbornly to move towards the precipice. The fact that the problems were on Yugoslavia's capital account—a drain in foreign confidence in the country's ill-coordinated banking system—did little to relieve IMF embarrassment.

So, the IMF decided to extend the techniques it was already using in the Latin American debt crisis and to lean on the commercial banks to provide new money for Yugoslavia, in addition to inevitable rescheduling of old loans. The banks finally gave in to the pressure, but only by charging the Yugoslavs a high price: 1⅞ per cent over Libor for their new loan and the medium term reschedulings, and 1⅝ per cent over Libor for the rolled-over short term loans.

The original instigator of the governmental aid was the U.S., though several other governments played a significant role and Switzerland (aptly a neutral country so as not to embarrass the non-aligned Yugoslavs) did the final organising. Among the 15 donor countries, the Nato countries felt Yugoslavia was an important bulwark against the Warsaw Pact reaching the Mediterranean and economic distress there could lead to dangerous social and political tensions. The neutral governments regard Yugoslavia as politically important. For all of them Yugoslavia, with its open economy, has been a profitable market.

Doubts dispelled

Whatever doubts Yugoslavs may have had about denting their non-alignment status with Western financial aid must have been dispelled by the March trip to Belgrade by Mr Nikolai Tikhonov, the Soviet prime minister. In fact, it would seem that the Western help has given Belgrade extra leverage with Moscow.

This was the conclusion drawn from Mr Tikhonov's offer to Yugoslavia of a 20 per cent increase this year in oil. Yugoslavia pays for this oil, albeit in world prices, in barter under its regular clearing arrangement with the Soviet Union. The Soviet leader also dispelled Yugoslav fears that Soviet non-oil trade shipments might be cut this year.

The government of Prime Minister Milka Planinc has struggled to avoid a straight default, partly because it felt this would deal its special brand of communism, based on worker self-management and on regional decentralisation, a very damaging blow. In fact, the argument might be turned around. To a significant degree, it has been the politically laudable but economically chaotic system of decentralisation which brought the country to the debt crisis brink. Lack of central control over foreign borrowing and over foreign exchange receipts has seriously weakened the hand of the federal authorities in coping with the country's debts.

Some changes have been made. Individual companies and republics have agreed to surrender more of their hard currency export earnings to the National Bank coffers. The National Bank has stepped in with both money and management to strengthen some of the weaker regional banks. Finally, the Yugoslavs made an important concession to win the new \$600m loan and rescheduling from the foreign banks. Previously regional commercial banks had done virtually all foreign borrowing in their own name. The new agreements are jointly in the name of the regional banks and the National Bank, and carry the guarantee of the federal republic behind them.

Soaring inflation put a superficial gloss on Israeli bank profits last year

Interest rates out of gear

Israel

DAVID LENNON
Tel Aviv

NEW REGULATIONS regarding the taxation of inflationary profits, coupled with income from investments in stocks and daughter companies, enabled the Israeli banks to register handsome profits last year, despite a disappointing performance on the operational side.

With inflation running at over 100 per cent annually for the past four years, the Government finally introduced new tax regulations last year which prevent corporations paying tax on inflationary profits. Thanks to this change, all the banks had to set aside much less for taxes.

But the two largest banks, Leumi and Hapoalim, who control two-thirds of the market, registered a substantial drop in operational profits in real terms. Third placed Discount Bank, with 25 per cent of the market, enjoyed a growth in pre-tax profitability just above the inflation level. The two smaller banks, United Mizrachi Bank and First International Bank of Israel, did much better, achieving substantial growth in operational profits.

The banks blame this situation on the Treasury which prevented them from raising interest rates or the commissions on transactions, as part of the Government's attempt to curb inflation. This meant, in effect, that the banks were actually charging a negative interest rate in real terms.

The problem was caused by the rates being set early in the year, when inflation was running at about 100 per cent, and the banks were not allowed to raise them when the inflation rate shot up to 150 per cent in the second half of the year. At the same time, the competition between the banks led to them paying high interest rates on deposits and various savings schemes.

It was also notable that the banks substantially increased their provisions for doubtful debts, as a result of expected losses on some overseas loans. Hapoalim ran into trouble over International Harvester, and Discount admitted that its outlet in Montevideo had a bad year. Leumi also expects losses on its American banking operations.

The overseas operation of the Israeli banks is of increasing importance, with over 120 branches of Israeli banks operating abroad. In the case of Discount, overseas operations contributed 35 per cent of the group's profits last year, which was a lower percentage than in 1981 when the overseas contribution was 42 per cent.

The other banks are less frank about the scale of the contribution of operations abroad to their balance sheet, but it is increasingly substantial. The local market having been saturated, this is the only path for the banks to follow if they are to maintain their expansion.

The total balance sheet of Bank Leumi grew by 15 per cent in dollar terms to stand at $23.4bn at the end of 1982. Its net profit was up almost 30 per cent at $102.6m.

Bank Hapoalim crept closer to Leumi with a 16.7 per cent growth in the balance sheet to $22.3bn. Net profit grew by over 28 per cent at $138.2m.

Discount Bank increased its balance sheet by just over 19 per cent to stand at $11.6bn. Net profit rose by a more modest 14 per cent to just over $40m.

Dynamic growth

United Mizrachi Bank and the First International Bank of Israel, who have shown the most dynamic growth in recent years, continued the trend again last year.

These two banks also featured in the most exciting banking event of the year, when Mizrachi made a bid to take over control of FIBI. The deal was vetoed by the Treasury, which turned out to be a lucky break for Mizrachi after FIBI shares fell 60 per cent during the Tel Aviv stock exchange collapse early this year.

If the banks suffered from a decline in operational profits, they none the less did very well from the stock market boom in 1982. New issues, turnover commissions and the sale of shares out of portfolio all contributed to the banks' well being.

They also did well out of the investments outside banking and though the overseas operations proved less profitable than in 1981 they still contributed substantially to the banks overall performance.

Despite the fact that bad debts on overseas loans became an issue in 1982 for the first time, investing in expansion of the overseas operations remains a good way to protect the banks against the ravages of inflation. But because of the beneficial changes in the tax laws, it is no longer imperative to invest abroad just as a tax haven.

The banks also pushed ahead with their computerisation programme. In May this year the Israeli banks will be connected to the Swift system so that funds can be transferred instantly to 10,000 leading banks around the world.

There has been a tremendous growth in the installation of automatic teller machines, with about 400 installed in the country's network of about 1,000 branches.

All the banks are also working to put most of their branches on-line within the next three years, and the banks are also studying EFTPS operations, though not much progress has been made on this so far.

The banks will hope this year to win Treasury approval for raising interest rates to more realistic levels, but at the same time will have to try to cut operating costs if they want to return to operational profitability.

The stock market, which suffered a severe collapse early this year, is not likely to prove as profitable for the banks as last year. But on the other hand the signs of an easing of the international recession is being viewed as offering a chance for the overseas operations to increase their contributions of the banks at home.

Government intent on reforms

Turkey

TERRY POVEY
Istanbul

BANKING seems to be very popular in Turkey. The main streets of its cities abound with branches and almost every other advertisement on the hoardings if for a bank. The phenomenal growth in branches resulted from intense competition for deposits that still continues even though many banks now face difficult financial problems in covering the interest payments on these hard-won accounts.

With profits for 1981 and 1982 down sharply the country's bank chiefs still seem to believe that the man in the street chooses his bank at random. "If we failed to match our competitors in expanding our branch network we would lose customers," Mr Burhan Karagoz, general manager of Is Bank, the largest commercial bank.

Yet the expansion policy has produced in its wake a crisis for many banks. Having attracted deposits at an average cost of 34 per cent they are finding it very hard to get a corresponding return on their loan portfolio. Credit to customers involved in purely domestic business activities is so costly that many face bankruptcy and cannot repay existing loans—let alone afford fresh ones.

Saddled with high oeprating costs because of the many branches even the biggest banks may have to rationalise to survive. This also is part of the Government plan, the full weight of which will only be felt once the existing 25-year-old Banking Act is radically changed by a decree expected to be promulgated some time this month.

The tradition of banking in Turkey has undergone a rapid change in the past three years. Fly-by-night loan sharks who took unsecured deposits amounting to billions of lira and lent them out to those who could not obtain funds from the banks have been driven out of business following the spectacular collapse las summer of the biggest, Kastelli.

Bankruptcies

The legacy of the unlicensed deposit takers is still there, however. Two of the smaller banks, Istanbul Bank and Hisarbank, are being run by Government-appointed officials in order to preventtheir collapse as a result of the knock-on effect of the bankruptcy of some 500 brokers.

The scale of the problem—some TL55bn ($264m) was deposited with brokers operating in the capital, Ankara, alone, was such that millions of dolars had to be loaned by the central bank to the banking system to keep it afloat. Although some of this has now been repaid it has all added to the head of steam behind the Government-sponsored campaign for radical change.

"If the banks had significant public shareholding there would have been a revolt by now over the low returns," said one official. As it is, the great majority of the commercial banks are owned by family-based holding groups. These are biterly contesting the right of the Government to intensify its regulatory powers, claiming "free enterprise" as the defence for what many see at traditional money lending barely disguised by modern concrete offices.

Almost none of the banks, for example, has an external audit of their accounts and one accountant claimed that "you should not put too much credence in the balance sheets of most of the 24 commercial banks." Of course all the banks have internal inspecting systems (AK Bank, the second largest commercial bank, employs more than 100 inspectors) but public confidence in the published figures appears low.

Turkey's Government is working on a rather harsh monetarist plan for economic growth and curbing of inflation. "Everyone, banks and private companies, must be forced to open themselves up to the pressures of competition and the market," says Mr Adnan Kafaoglu, the Finance Minister.

In order to squeeze back into the economy hoarded money, largely made on the extensive black market the Government recently allowed the legal laundering of some TL373bn (including TL43bn in bearer certificates of deposit) of undeclared wealth. The cash part of this sum is equal to more than half the total amount of notes and coins in circulation at the end of 1982. However, there is little sign yet that this has helped restore the liquidity position of the private sector and in the short term it may have further weakened the cash flow positions of some smaller banks.

Under mounting pressure from above, Turkey's banks seem likely to be forced to change. Already in the negotiations over the new Banking Act they have made a number of concessions but, comments a foreign banker, many of these were only made in the expectation of reciprocal concessions from the authorities and did not really reflect a change of heart.

Despite spirited resistance, then, it is difficult to avoid the conclusion that banking in Turkey is approaching a watershed. With the military behind them the Government and officialdom have determined that the country can only develop and modernise if the financial system is radically reformed. In private no officials conceal that there will be casualties in this process but they hope that perhaps at the end of the day banking will become "more a profession than a family pastime."

The shock takes its toll

CONTINUED FROM PAGE 1

service even their interest payments throughout 1983-84.

There are encouraging signals for the debtor countries, however. Global economic recovery, led by the United States, if it proves as widespread and sustained as some economists predict, should boost the cross-border trade which is vital if debtor nations are to earn precious foreign exchange with which they can service their debt.

Declining interest rates in the U.S. and other countries should save the debtors a great deal. It has been estimated for example, that for every 1 per cent drop in dollar interest rates, Brazil saves $500m of interest payments.

But interest rates remain far too high in real terms and they can also be the subject of manipulation by governments, particularly when such governments are going into general elections and wish to ensure a gradual economic boom.

While Mr Paul Volcker, the chairman of the U.S. Federal Reserve Board, has numerous fans in the financial community, there are still some bankers who will criticise the Fed's reluctance to ease its policies further and allow a more rapid decline in interest rates this year. The traditional Fed argument is that too rapidly falling interest rates can bring about dangerous bouts of recurring inflation.

Yet, some bankers point out that this argument ignores the reality of what they perceive to be the end of a deflationary cycle in Western industrialised states.

These bankers argue that the success of many governments in reducing inflation has less to do with fiscal and monetary policy and a great deal more to do with the world recession we are now emerging from.

Most major bank economists nonetheless predict that U.S. interest rates will be only around 1 per cent lower than their current levels by year-end.

Another problem for the banking world is that sovereign risk is not the only big headache. Last year was also the year in which big corporate entities such as International Harvester, Dome Petroleum, AEG and Grupo Alfa had to restructure their debt. Corporate bankruptcies reached amazing proportions and some bankers say there will be still more in the pipeline as the world recovers from recession.

All of this raises the unpleasant question of who is to blame for the mismanagement of country debt, the abuse of the interbank market and the huge country lending which fuelled country debt crises.

Enough blame

It would seem that there is enough blame to go around for everyone. Central bank authorities are blamed by some bankers for allowing hundreds of billions of dollars of loans to Latin America to pile up without expressing concern to the lending commercial banks.

This begs the question, however, of whether the International Monetary Fund, with its unique ability to see the financial position of debtor countries, was not remiss in failing to point out to central banks the danger signs it must have spotted.

Bankers, politicians and finance ministry officials the world over may blame borrower governments such as the administration of President Lopez Portillo of Mexico, which from 1976 to 1982 blithely allowed its public sector debt to mount from a little over $10bn to more than $60bn.

All of the banking community seems to agree that countries such as Brazil and Mexico abused the interbank system by allowing the foreign branches of their banks to borrow short-term money for what was essentially balance of payment financing.

But it is the banks themselves which have escaped much of the blame in Europe and are only now under fire in the U.S. Congress. The country risk officers of majors such as Bank of America, Chase Manhattan, Citicorp and others approved billions of dollars of lending to Latin American countries during the late 1970s and early 1980s.

This was a period when Opec funds, while declining, were still flowing into the Euromarket and thus helping to fuel the recycling process. The Mexico City representatives of various U.S. banks, for example, must have had sufficient faith in Mexico to approve loans which total billions of dollars—and the lending continued until July, 1982.

Now that the house of cards has collapsed, the issue of bad debt provisions has proved a ticklish one. Take the case of Bank of America, for example: with disclosed loan exposure of $2.5bn to Mexico, $2.3bn to Brazil and $2bn to Venezuela, Bank of America has achieved exposure in just three countries which represents 148 per cent of its $4.57bn equity capital base. And Bank of America's ratio of problem exposure to capital base is by no means the most worrying of major U.S. banks.

Bank of America's bad debt provision reserve stood at $670m at the end of 1982. In line with other major U.S. and British banks it increased its 1982 bad debt provisions significantly.

But did the banks go far enough?

Look of concern

Ask any bank executive if his provisions are adequate and he will invariably say they are. He might add, however, with a look of concern and sarcasm: "But I'm not so certain if my friends at Bank X have provided enough. Why not ask them?"

This "Not-me-mate" attitude of many major banks must at least raise eyebrows. While it can be argued that the debt problems are not as bad as they appear and the money will eventually be retrieved, this somewhat begs the issue.

For the reality of the situation is that a number of banks face having the principal they loaned being tied up for years to come; this limits lending flexibility and distorts the role of banks in economies.

Any number of so-called "lifeboat" or discounting solutions have been advanced and these pages contain a sampling of some of the more talked about of these ideas. But while the ideas themselves are interesting, the political will required to implement them appears to be lacking.

Instead, the global banking system, an integral part of the global economy, seems destined to do little more than muddle along and hope for the best.